THE AMERICAN ECONOMIC REVIEW

VOLUME XXXIX JUNE, 1949 NUMBER 3

The JOURNAL OF
THE AMERICAN ECONOMIC ASSOCIATION

THE AMERICAN ECONOMIC ASSOCIATION

Founded in 1885

THE AMERICAN ECONOMIC REVIEW

Published by the American Economic Association

The American Economic Association assumes no responsibility for the views expressed by authors whose contributions are published in *The American Economic Review*.

The American Economic Review is published six times a year, in January, March, May, June, September and December, at 450 Ahnaip Street, Menasha, Wisconsin. It is sent to all members of the Association, as one of the privileges of membership, $4.00 of each year's dues being in payment of a year's subscription. Dues and subscription rate are $5.00 a year; the price of single copies is $1.25.

Correspondence relating to memberships, subscriptions and business matters pertaining to the American Economic Review should be addressed to the Publication Office, 450 Ahnaip St., Menasha, Wisconsin, or to James Washington Bell, Secretary of the American Economic Association, Northwestern University, Evanston, Illinois.

Address all communications for publication in the American Economic Review to Paul T. Homan, Hall of Government, George Washington University, Washington 6, D.C. Address all communications relating to the Papers and Proceedings of the annual meeting and to the Directory to the American Economic Review, James Washington Bell, Northwestern University, Evanston, Illinois.

Applications for permission to quote from the Review should be addressed to the Secretary of the American Economic Association, Northwestern University, Evanston, Illinois.

The articles published in the Review and in the Proceedings are indexed in Reader's Guide to Periodical Literature, New York, New York.

Entered at the post office at Menasha, Wisconsin, as second class matter. Acceptance for mailing at special rate of postage provided for in the Act of February 28, 1925, embodied in paragraph 4 section 412, P. L. and R. Authorized September 13, 1928.

BOOK REVIEWS

Economic Theory; General Economics

Economic History; National Economies

Economic Systems; Planning and Reform; Cooperation

Business Fluctuations; Prices

Business Finance; Investments and Security Markets; Insurance

Public Finance

International Economics

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Land Economics; Agricultural Economics; Economic Geography

Labor

WESLEY CLAIR MITCHELL

President of the American Economic Association in 1924

A memorial by Frederick C. Mills will be found at page 730.

Number 26 of a series of photographs of past presidents of the Association.

Wesley C. Mitchell

The American Economic Review

VOLUME XXXIX JUNE, 1949 NUMBER THREE

A CRITICISM OF THE HAVANA CHARTER

By SIR HUBERT HENDERSON*

In their bulk and mass, the International Trade Charter and the Organization which is to administer it resemble a mountain rather than a mouse. Yet the significance and value of what has been achieved with such prolonged and expensive toil are far from clear. The basic principles which the Charter was originally intended to express and to enforce are wrapped up and swaddled in thick layers of exceptions and saving clauses, through which it may be hard for them to penetrate. Nor, speaking generally, is it possible to blame those who have insisted on the exceptions and saving clauses. The basic principles, it is increasingly manifest, could not possibly be applied immediately. Accordingly, the prevailing disposition among supporters of the Charter is apparently to stress its negative value as a restraint. Progress towards the goal of a nondiscriminatory, freely working international economy cannot, it is reluctantly conceded, be made just now; it may even be necessary to acquiesce in various movements in the opposite direction. But such retrograde movements must be carefully controlled and kept within the limits which circumstances really justify. This, it is claimed, is a function of great importance; and for it the International Trade Charter and the Organization are supposed to be well contrived.

This is so modest a claim that it may seem ungracious to question it. Yet I feel obliged to record my fear that the Charter may do more harm than good and may prove more of a hindrance than a help to the creation of a healthy international economy. The harm, it is true, may not be very great, and will mostly be of a less immediately tangible sort than there was once reason to apprehend. Countries to which import restrictions are indispensable in order to correct a large deficit in their balance of payments will not be debarred from effective action

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by their Charter undertakings. For these and many other contingencies, the exceptions and saving clauses make what should be adequate, though by no means wholly satisfactory, provision.

None the less, the question is pertinent whether the basic principles of the Charter are really sound and wise. Is the present difficulty of applying them only a transient one? Or does it spring from the fact that these principles are fundamentally ill-suited to the conditions and problems of the modern world? If the latter is true, the consequences of proclaiming them as the goal of policy are bound to be unfortunate. At the least, we must expect disillusionment, cynicism, a sense of frustration and considerable prejudice to the idea of international co-operation. On unfavourable hypotheses, there are more serious dangers to be feared in the years that lie ahead—friction and recrimination, charges of bad faith on the one hand, and undue interference on the other, bedevilling the relations between friendly countries and Anglo-American relations in particular.

The Principles of the Charter

Certainly, if such risks are to be avoided, it seems to me important that what I have called the basic principles of the Charter should be discussed far more freely, critically and objectively than has been customary hitherto. In the lengthy process of semi-official exchanges and fully official conferences which preceded the signing of the Final Act at Havana, discussion of these principles upon their merits played no part. They were a *chose jugée*. The principal governments concerned were already committed to them by the terms of the various Mutual Aid Agreements. It was only the manner in which they should be applied that was still open to argument.

The course of public discussion has been much affected by the same inhibition. British opinion especially has been influenced by a desire to avoid the impropriety of seeming to challenge principles to which we are committed. This reluctance is increased by considerable uncertainty and confusion upon the merits of the case. On the one hand, the principles in question do not seem to square with the policies which it is necessary to pursue. On the other hand, they are in full accord with a long established national tradition which still makes a wide appeal.

Confusion is indeed the chief characteristic of such discussion of the principles as has taken place. It is remarkable how seldom the arguments of the disputants seem to meet. This reflects, in my opinion, a deep confusion of thought in the principles themselves. Desirable aims are mixed up in them with false inferences and unwise behests; and I think it of real importance to try to disentangle them. The desirable aims may be formulated as follows: (a) a large and expanding

volume of international trade, which will permit the fullest possible realization of the advantages of an international division of labour; (b) as a condition of the foregoing, the utmost practicable scope for the processes of triangular or multi-angular trade and payment; (c) commercial policies which satisfy the desire for equity and fair-dealing between nations.

To these aims all sections of British opinion subscribe wholeheartedly and without reserve. It is a commonplace that Britain is far more vitally dependent on imports than any other country of comparable size. The ampler the dimensions of world trade as a whole the easier are we likely to find it to maintain the large external trade that is essential to us. We certainly desire conditions under which we can use exports to one market to defray imports from another, and thus avoid the need for a precise balancing of accounts with each country with which we trade. No country has better reason than Great Britain to fear the spread of "autarkic" ideas throughout the world, or to welcome the establishment of a code of international good behavior which would restrain arbitrary self-regarding acts of national policy injurious to the interests of others.

It may seem only a short step from these propositions to the principles of the Havana Charter, which may be summarized thus:

1. Non-discrimination;
2. Reduction of tariffs on the basis of reciprocal concessions;
3. Subject to a long series of reservations, the outlawry of import restrictions; to which should be added, though it appertains strictly to Bretton Woods, rather than Havana:
4. Free convertibility of currencies.

At first sight, admittedly, these seem appropriate means for achieving the accepted ends. How can international trade be enlarged unless trade barriers are reduced? Are not import prohibitions and restrictions usually the most drastic type of trade impediment, and the one which lends itself most readily to abuse by high-handed application? How can triangular trade be developed without facilities for exchanging one currency for another? What causes more ill-feeling or conflicts more obviously with the instinct of fair-play than discriminatory treatment? Surely, then, the Havana principles are proper ones to proclaim and press, provided that the detailed obligations make due allowance for the difficulties of applying them. All this is plausible, undoubtedly, but in my view it is seriously misleading.

It is misleading because the list of desiderata given above is incomplete. This list omits equilibrium in the balance of payments. The unhappy international economic story of the interwar period, the scarcely more promising experience of the last few years, both show that this is a requirement of paramount importance. Nor is it one which is ade-

quately met by the technique of escape clauses and exceptional provisions. Disequilibrium in the balance of payments is the central problem of modern international economics. No expansion of international trade can be soundly based, nor, therefore, can it prove enduring, unless this far-reaching disequilibrium has been overcome. This is indeed the chief task that confronts international economic statesmanship today, as also European statesmanship and the national statesmanship of many countries. It is a task, moreover, which calls pre-eminently for constructive action.

Non-Discrimination

There could be no more impressive recognition of this truth than that contained in the Marshall Plan. The central features of this plan are, first, the generous provision of dollar aid over a limited period of years, and second, the promotion of greater economic cooperation between the countries of Europe. The latter objective comprises in its turn two elements: appropriate financial arrangements, including aid from the relatively strong to the relatively weak, and the development of intra-European trade. Now this last policy embodies a principle which is very different from that of nondiscrimination. In effect, the Marshall plan says to the embarrassed countries of Europe: "You are finding it difficult to buy all the things you need from the United States. Well, we are prepared to help you for a time, in so far as you really need our help. But you must reduce your calls on us to a minimum. In particular, you must not look to the United States for supplies which you might obtain from one another without much difficulty." On the other hand, the principle of nondiscrimination says in effect: "You must not buy from one another (unless indeed you go so far as to form a Customs Union) goods that you might obtain from the United States or elsewhere at a slightly cheaper price."

There is a contradiction here which seems to me more fundamental and more significant than is commonly admitted. It is true, of course, that the Havana Charter virtually exempts countries which are in serious balance-of-payments difficulties from the restraints of the nondiscriminatory obligation, so long as these difficulties remain. And it can be argued without any logical incoherence that this obligation will become appropriate and desirable under "normal" conditions, when these difficulties are supposed to have disappeared. But it is precisely this sharp distinction between the exceptional and the normal which is fundamentally unreal. The restoration of basic equilibrium in the international balance of payments is no mere passing problem of the transition from war to peace. It is a long-term, large-scale task. Actual balance-of-payments deficits must, it is true, be eliminated, willy-nilly,

fairly soon; and disagreeable measures, including drastic import programmes and discriminatory trade arrangements may be needed in many countries for this purpose. But it may be no less necessary to retain such measures, however modified, for many succeeding years, to prevent these deficits from reappearing.

Again, it is true that by forming a Customs Union or free-trade area, or by making an "interim agreement" designed to lead to either of these things, European countries can obtain leave to discriminate permanently in favour of each other. In thus distinguishing between Customs Unions and preferences, the Havana Charter is, of course, in full accord with tradition; the same distinction used to be recognized in the application of the old-fashioned most-favoured-nation clause. The justice of this distinction has, however, long been doubtful. The members of a Customs Union discriminate much more decidedly in favour of each other, as against the outside world, than do the parties to a preferential trade arrangement. It is far from clear why it should be equitable and praiseworthy to practise discrimination in an extreme degree, but inequitable and reprehensible to practise it in a moderate degree. The distinction may be defended by various arguments resting on the plane of practical convenience, but its ethical basis is not easy to discern.

It is a distinction, moreover, which does not fit modern problems and modern facts. Benelux notwithstanding, a genuine Customs Union, in the sense in which the term has been understood in the past, is quite impracticable in the Europe of today. In many countries, import policy has now become, and is likely to remain, one of the main and most vital functions of government. In Great Britain, for example, the standard of living that can be enjoyed immediately, and on the other hand, the prospect of overcoming our balance-of-payments difficulties and maintaining our monetary reserves depend very largely on the rate of expenditure on imports of different commodities from different sources; and this is regulated by our governmental import programmes. This is not a function which the British government could allow to pass outside its effective control. Nor, I suggest, could the government of any other country which is faced with similar difficulties, and which intends to keep any substantial measure of independence. The idea of forming an effective free-trade area, with a uniform treatment of imports from countries outside it, is only really feasible between countries that are prepared to unite politically, and to unite, not in a loose federation, but under a highly centralized form of government.

This truth, however, is not yet as manifest as I believe it will become. Although any full Customs Union is clearly impracticable in

Europe for the time being, it is easy to cherish illusions that the obstacles may eventually be surmounted. It might even be possible, though in practice it would not be easy, to make early progress in adjusting tariff rates towards the requirements of a Customs Union, and to lean more heavily for the essential work of regulating imports on quantitative restrictions, assumed to be an emergency expedient. It may well be, therefore, that the Charter will serve to stimulate arrangements claiming to be "interim agreements" within the meaning of Article 44. In considering whether such claims are justified, the Organization will presumably adopt extremely tolerant standards, under the influence of the prevalent idea that any arrangements of this type represent a desirable development conducive to the general cause of European unity.

For my part, I doubt whether this idea is justified. It is certainly of the utmost importance to develop intra-European trade and to secure a "closer integration" between the economies of different European countries. But it is premature to suppose that we know today at all precisely how these ends can best be served. Arrangements that are really helpful must be highly flexible. To try to force them within the framework of a project for a Customs Union may well prove profoundly unwise. It may lead to subsequent deadlock and breakdown, injurious to the larger cause, which might have been forwarded by less ambitious arrangements. It is almost certain to involve an immense amount of make-believe and casuistry, corrupting to those who take part in it, and exasperating to others. Indeed, if any "interim arrangements" are approved, and a serious attempt is made to enforce the nondiscrimination rule elsewhere, countries which find themselves hampered by it will have good reason to complain that the dice are loaded against them.

Here I may observe that in British eyes the dice of the nondiscrimination rule seem already to be loaded against the preferential system of the British Commonwealth. A Customs Union between Great Britain and the Dominions is clearly impracticable; and no "interim agreement" could be made between them purporting to lead to this. But that is not all. Article 15 permits, subject to certain conditions, the establishment of new tariff preferences between countries which "are contiguous one with another" or which "belong to the same economic region." No such possibility is open to the countries of the Commonwealth which are separated by the oceans. Here the Havana Charter departs from tradition; for preferences between countries belonging to the same political system (and after all the British Commonwealth, despite the looseness of its formal structure, is an association which has stood the test of two world wars) were not regarded as violating the most-favoured-nation clause.

It is scarcely an exaggeration to say that the reduction of tariff preferences within the British Commonwealth is the only consequence of the Charter which is definite and certain. I appreciate the strength of the objections of American opinion to the arrangements of the Ottawa Conference of 1933. None the less I find it difficult to understand what useful purpose can be served by a reduction of Imperial Preference in the altered circumstances of the present day. Its maintenance, and where desirable its extension, could do no real injury to American export trade; for the Commonwealth will always be ready and anxious to import from the United States to the full extent of the dollars it can earn both directly and indirectly by export to other markets. On the other hand, the reduction and restriction of these preferential arrangements must tend in some degree to make it more difficult to restore and maintain equilibrium in the balance of payments between the sterling and the dollar areas.

The Reduction of Tariffs

I have already indicated my opinion that one of the main weaknesses in the philosophy which underlies the Charter is the distorted perspective in which it views the problem of balance-of-payments equilibrium. This should be recognized as a key objective; it should be a primary purpose of economic policy, both national and international, to establish and maintain it; and the provisions of the Charter should have been largely directed to this end. In fact, the Charter treats this vital matter in an essentially passive way. It takes it for granted that the balance of payments will normally be in equilibrium, and thinks it sufficient to concede, almost by way of afterthought, that when countries are threatened by serious deficits they may be allowed to indulge in practices which would otherwise be forbidden to them.

This misconception vitiates the approach to the problem of reducing tariffs. The Charter contemplates that tariffs should be reduced by negotiations between particular countries, based on the principle of reciprocal concessions. This, of course, is the fundamental principle of the American Trade Agreements Act; and it is easy to understand, in the light of the history of the measure, supported as it has been by the low-tariff and criticised by the high-tariff school of thought, that substantial tariff reductions could not be effected at present in the United States on any other basis. This, however, does not alter the fact that the principle in question ignores the possibility of a serious balance-of-payments problem, and is therefore ill-fitted to serve as the basis of international economic policy in the world of today.

Here again indeed there is a fundamental contradiction which is insufficiently appreciated. The principle of reciprocal concessions comes very near to saying that tariff reductions, calculated to increase Ameri-

can imports, can only be made in return for tariff concessions by other countries, calculated to increase American exports by an equivalent amount. This, in turn, comes very near to making it a *sine qua non* of tariff reductions that they should do nothing to solve the dollar problem or to readjust the balance of payments of the world. In practice, doubtless, the principle will be interpreted and applied more reasonably. None the less, it must serve as an obstacle to the rearrangements that are urgently desirable.

The true logic of the problem can be stated in a simple syllogism. To secure a balanced international economy, it is essential that the United States should increase her import purchases by much more than she increases her export sales. Therefore she should be ready to reduce her import duties, although other countries may find it necessary to maintain and even to increase theirs. More generally, it should be for countries to reduce their tariffs and encourage imports, not in proportion to the reciprocal concessions they are able to secure, but in proportion to the strength of their balance-of-payments position.

This, I submit, is one of the main principles on which a wise code of international good behaviour should be based. Doubtless it is still far removed from the region of acceptability to American opinion. Yet the logic behind it is so strong, and is likely to be driven home so insistently by the lessons of events, that I am not without hopes that it will gradually win an increasing measure of recognition and acceptance in the years that lie ahead. To this process, unfortunately, the embodiment of the opposite principle in the Havana Charter must be an obstacle.

In the meantime, it is important to note one influence which the treatment of tariff reductions in the Charter must be expected to exert. It is likely to stimulate and to prolong the use of quantitative import restrictions. If countries that find it necessary to curtail their expenditure on imports are unable to raise import duties for this purpose, they will rely increasingly on the alternative technique of quotas. This will be a paradoxical, and it may be a somewhat unfortunate, consequence. As will soon become clear, I do not personally share the extreme dislike of the quantitative method which forms a main element in the philosophy of the protagonists of the Charter. On the contrary, I believe that concrete or quantitative regulation is likely to play an important part in international economic life for a more or less indefinite future. For many commodities, however, imports are better regulated by duties than by quotas; and it is possible that for some commodities a combination of the two methods would be the most satisfactory arrangement. It is undesirable from every point of view to force the use of the quantitative method. Yet this may well be an

unintended result of the provisions of the Charter. If so, it will be attributable to the false assumption that import restrictions can be abolished altogether at an early date.

Quantitative Regulation, Exchange Rates and the Price System

As it emerged finally from the Havana Conference, the Charter allows quantitative regulation in so many different forms and for so many different purposes as to obscure the fact that the original intention was to prohibit the use of this method, save in the most exceptional circumstances. It is under this heading more than any other that exceptions and escape clauses were multiplied during the long-drawn negotiations that preceded the Final Act; and in practice, as I have just suggested, the Charter may well do more to stimulate than to check the spread of quota restrictions. It remains true, none the less, that in the minds of those who have done most to initiate and to push forward the project of the Charter, a strong dislike of quantitative regulation, as something inconsistent with, and inimical to, a self-adjusting price system, has played throughout a prominent part. It is, I think, more useful to consider the broad issue of economic policy which arises than the detailed provisions of the Charter relating to quantitative regulation.

The position from which I approach this question may be stated summarily as follows. When there are no large maladjustments that must be corrected, or no large readjustments that must be made, the economic system can be entrusted to the forces of the price system with the prospect of reasonably satisfactory results. But in any situation which calls for large-scale readjustment, it is necessary to supplement and sometimes to supersede these forces by more direct measures, consciously directed to the object which has to be attained. The forces of the price system are strong enough to effect small adjustments smoothly; but when the work they have to do is large, they are apt to prove clumsy, wasteful and ineffective.

As a special case of this general rule, countries in balance-of-payments difficulties must use the direct method of quantitative regulation to limit their expenditure on imports, and also apply appropriate measures of control to promote their export sales. That this may be necessary, as a strictly temporary expedient, is not now seriously disputed, even by those whom I call for convenience the ideologues of the price system. But many of them take the line that no difficulties can justify the continuance of such expedients for a prolonged period. If the maladjustment continues for several years, in the sense at least that it would reappear if the direct controls were removed, this proves, they would argue, that there is something radically wrong in the under-

lying price relations of the country concerned; and they believe that if this error were corrected, the maladjustment would disappear fairly soon. In other words, they concede that direct controls may be useful as a stop-gap; but insist that the work of readjustment must be taken over as soon as possible by price-system correctives. The particular corrective which appears to be most fashionable at the moment among adherents of this school of thought is the depreciation of exchange-rates.

This is a point of view which appeals especially to academic economists, who are tempted by a semi-aesthetic appreciation of the harmonious inter-relations of the price system, as pictured by theoretical analysis, to exaggerate its actual virtues. It represents the essence of the answer which some would give to many of the arguments I have used in the course of this article. They would readily agree, for instance, that equilibrium in the balance of payments is no less important than the expansion of international trade. But they would argue that the former object can only be secured by establishing proper price relations through such means as the adjustment of exchange-rates, and that tariffs, import restrictions or other trade impediments, though they may be of some temporary help as a stop-gap, can be no substitute in the long run for correct price relations. Therefore, they would conclude, it is right to concentrate on lowering trade barriers, and in particular on eliminating quantitative restrictions as soon as possible.

Such arguments have an appearance of profundity, which in my view is misleading. It is always important, I agree, to secure price relations which will help rather than hinder any readjustment which has to be made. It does not follow that price relations can be relied upon as the main active force for effecting the readjustment. In particular, there could be no more dangerous idea than that a depreciation of exchange-rates is the sovereign remedy for a balance-of-payments deficit. It is doubtless true that it is helpful to a country's balance of payments that its currency should be "under-valued" rather than "over-valued," though a high degree of "under-valuation" may be harmful. It is most rash to assume that the right degree of "under-valuation" can be brought about by lowering exchange rates. This must tend to raise internal costs, prices, and incomes; and since an inflationary movement is never easy to control, the ultimate result may be to raise internal prices to the full extent of the exchange depreciation. If the idea is that exchange-rates should then be lowered again, in the hope that next time the luck will be better, there is an obvious danger of a vicious spiral of internal inflation and devaluation. The recent experience of Italy and France shows that these are not fantastic pos-

sibilities. Nor should these object lessons have been necessary. The pertinent story of the nineteen-twenties should have been enough.

Of course, if internal inflation has led to a serious over-valuation of a country's currency, exchange devaluation may be essential. Indeed the recent fall of prices in the United States makes it probable in my opinion that it will prove necessary in the end to devalue sterling (together perhaps with other European currencies) relatively to the dollar; though it would be much better, if conditions permit, to defer this until *after* the inflationary trend in our own economy has been brought unmistakably to an end. It is vital, moreover, that any exchange-rate adjustments that are made should be once-for-all adjustments. The idea that frequently occurring exchange-rate variations might provide the regulating spring of an automatic international economy will not, I believe, stand up to critical examination; and the prominent part which it has come to play in modern price-system ideology is a most curious phenomenon. Before 1914, when an otherwise unregulated price system worked tolerably well, exchange rate stability was regarded as an essential feature of it; and it is still, in my opinion, an important desideratum.

Behind the practical dangers which would arise if an attempt were made to apply the new doctrine of exchange-rate variations, lies a more fundamental consideration. A country which has to adapt itself to straightened international means must readjust the structure of its economic life. It must alter its habits of consumption and production. Any necessary reduction of imports will be less injurious to its standard of life, if it is *selective,* falling heavily on some items and sparing others, than if it is indiscriminate. Therefore, a radical change in the composition of the country's imports may be needed. It is an illusion to suppose that such changes can be quickly brought about by price-system forces of any type, unaided by direct controls. In a sense, it may still be true that the need for such controls may prove to be only temporary. It may not continue after the new production and consumption habits have become established, and the country's economy has been recast securely in a new and appropriate mould. But the time required for this is certainly far longer than any that the conception of a transitional postwar period is apt to suggest.

Moreover, it is not only for the work of readjustment that quantitative regulation may be needed. It may also be useful for the purpose of maintaining stability, of minimizing the vicissitudes and disturbances which are apt to occur in an unregulated economy. The experience of the interwar years shows how serious such disturbances may be, and how unsafe it is to rely on the price mechanism to prevent them.

This truth is indeed recognised in the Charter in a few applications. It concedes the legitimacy of import restriction, for the protection and development of certain types of infant industry; and it must be expected that extensive use will be made of this concession.

The chapter on Inter-Governmental Commodity Agreements is based on the proposition that for primary commodities there may be a "tendency towards persistent disequilibrium between production and consumption, the accumulation of burdensome stocks, and pronounced fluctuations in prices." Here, accordingly, the Charter gives some positive support to the idea of quantitative regulation in the form of "commodity control agreements" on an international basis, though it seems unlikely that many such agreements would succeed in practice in running the gauntlet of the elaborate procedure and the rules and principles of Chapter VI. Similarly, Bretton Woods makes provision for the permanent retention of exchange control for the purpose of regulating capital movements; and no one who recalls the mischief that was done in the interwar period by the large erratic scurries of "hot" money can seriously dispute the necessity of this control in a world which has lost its faith in the stability of exchange rates.

Economic instability, however, may arise from many different causes and may take many different forms; and there is a correspondingly large variety of circumstances in which it may be wise to apply direct controls to the external sector of a country's economy in the interests of steady and orderly development. It is foolish to suppose that these circumstances can be adequately provided for by any list of exceptions which is drawn up now. Such exceptions will be apt to emphasize the arbitrariness of banning direct controls in other circumstances in which it may come to seem more justifiable and important to employ them. I can see no escape from the dilemma that those provisions of the Charter which are directed against quantitative restrictions must either be treated as a dead letter, or will arouse a resentment so strong as gravely to prejudice the idea of international arrangements.

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These are the reasons why I think it probable that the Havana Charter will do more harm than good. It is ill-related to the very difficult problems which exist and which loom ahead. The true aims of international economic statesmanship are in my view, first, to facilitate the large readjustments in the flow of international trade that are needed to restore equilibrium, and second, to ensure that readjustments are made in such a manner as to cause the minimum of avoidable injury and disturbance to the economic life of the world as a whole, and in particular to that of the United States.

At present the United States is generously providing large-scale financial aid to cover the deficits of Europe. It is very reasonable that Americans should insist that this arrangement cannot continue for very long. But the cessation of Marshall Aid implies an economic readjustment which must take the form, either of a greatly diminished demand for American exports, or a greatly increased importation of European or other goods into the American market, or possibly both; in any event, a large change in the import-export balance of the United States. If at the same time the sellers' markets of recent years are replaced by buyers' markets, the dangers of serious dislocation in the American economy are obviously great. It is urgently desirable that constructive thought should be directed to the problem of how these dangers can best be minimized, without obstructing the task of readjustment. This can only be done along very different lines from those of the Havana Charter.

INTERNATIONAL DISEQUILIBRIUM AND THE POSTWAR WORLD

By Raymond F. Mikesell*

Classical international trade theory was concerned with the maintenance and restoration of international equilibrium through the pricing mechanism. The conclusion that such maintenance and restoration could in fact always be accomplished automatically through the pricing mechanism followed from the assumptions of free competition and the mobility and full employment of resources within each country. The absence of these assumed conditions, which were never fully realized, has made it necessary to consider states of international disequilibrium with respect to which corrective price adjustments are either prevented from taking place or would prove to be inadequate if they did take place.

Any attempt to classify disequilibrium as to types is dangerous because in any given disequilibrium situation more than one causal factor is almost invariably present. It may, however, be useful for purposes of analysis to differentiate between three types of disequilibrium situations: (1) those arising from disparities between internal and external prices and costs; (2) those arising from relative changes in the levels of national income at home and abroad; and (3) structural disequilibrium resulting from shifts in demand and supply conditions in internationally traded commodities or from changes in the invisible items in the balance of payments, which have not been brought about by changes in the relative levels of prices or incomes at home and abroad.

It will readily be admitted that any concrete situation may contain elements of more than one type of disequilibrium. Changes in relative levels of income in different countries are accompanied by relative price movements, while shifts in the structure of production and trade affect both prices and incomes. It is also difficult to determine which factors are *causal* in any given disequilibrium situation, in the sense that an appropriate adjustment of these factors would effect a cure. It may, for example, be found that relative movements in internal prices and costs have taken place but the removal of the disparities may have little effect on the trade balance because of the nature of demand and supply elasticities. Likewise, relative changes in the levels of national income may or may not have a significant effect upon

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trade balances, depending upon the nature of income elasticities of demand for the imports of the countries under consideration.

In considering the factors responsible for a given state of disequilibrium, it is important to distinguish between the problem of equilibrium for the group as a whole and for the individual country. Too often analysis has been confined to the problem of equilibrium for the individual country when perhaps the fundamental cause is to be found in the complex economic relationships among a larger number of countries. There are, of course, abundant cases in which small countries can take steps such as exchange rate devaluation or deflationary action to balance their international accounts without serious repercussions upon the international position of other countries. But where disequilibrium is widespread, corrective measures on the part of individual countries may fail to be effective in eliminating a general disequilibrium.[1] On the other hand, measures taken jointly by a group of countries may achieve beneficial results for the group as a whole which would not accrue to an individual country which undertook the same action unilaterally. For example, an individual country may find that an adjustment of its own exchange rate, all other rates remaining the same, would not materially affect its trade balance. A general adjustment of rates may, however, result in an expansion of trade among a group of countries with the result that the balance of payments problem of all members will be eased. This improvement might come about by reducing the dependence of all members of a particular group of countries on imports from a country whose currency was in relatively short supply. These same considerations with respect to the effects of actions of individual countries on other countries as a group will apply equally in cases of adjustments involving deflationary action or changes in the structure of production. Where disequilibrium is world-wide in character, corrective measures on a multilateral basis including planned alterations in the patterns of production and trade among a number of countries, may be called for. It is this type of disequilibrium situation which presents the most serious problem for the postwar world and with which this article is especially concerned.

The Disappearance of Automatic Correctives

In the decades since World War I, we have witnessed a gradual weakening or elimination of certain forces which in the past have operated to restore international equilibrium once it had been disturbed. The tendency on the part of treasuries and central banks to pursue

[1] For a discussion of the limitations of exchange depreciation for correcting general disequilibrium, see J. J. Polak, "Exchange Depreciation and International Monetary Stability," *Rev. Econ. Stat.*, Vol. XXIX, No. 3 (Aug., 1947), pp. 173-83.

internal monetary policies which are independent of changes in their holdings of gold and foreign exchange was observed in the 1920's and 1930's, and has now become almost universal. While this development tended to eliminate adjustments *via* the specie-flow-price mechanism, the widespread adoption during the 1930's of compensatory fiscal policies which offset decreases in incomes resulting from the emergence of trade deficits had the effect of preventing a restoration of equilibrium through changes in relative levels of money income among trading nations. Since the end of World War II, new interferences with the mechanism of international equilibrium have appeared, some of which may prove to be transitory, but others, depending upon the ultimate outcome of current trends in the character of economic institutions and trade practices among the nations of the world, may prove to be permanent. We may list a few of these developments as follows:

a. *Internal price and distribution controls, international commodity agreements and bilateral trading arrangements.* Such controls and agreements tend to insulate internal price systems from external forces. Changes in prices and in demand and supply conditions in one country are not permitted to have their normal effects on prices in other countries.

b. *The expansion of state trading.* Imports by state trading organizations are likely to be governed by the requirements of planned internal investment and consumption programs rather than by the operation of free-market forces. Likewise, export trade under state control, especially when accompanied by the allocation of resources for the export industries, may tend to be relatively unresponsive to world market conditions. When state trading is combined with bilateral trade agreements, the character of the trade will in considerable measure be determined by the requirements of the bilateral bargaining. For example, countries in a weak bargaining position may have to accept certain unessential or luxury commodities along with the more scarce items which they seriously need.[2]

c. *Unrealistic patterns of exchange rates.* Improper rates not only make it difficult or impossible for countries to achieve equilibrium without the use of controls, but they tend to direct trade and production for export into abnormal and uneconomical channels. For example, postwar intra-European trade has been characterized by a high proportion of trade in luxury products (where prices are generally uncontrolled) whereas such commodities should either move to the dollar area or not be produced at all. Exchange rates which do not reflect differ-

[2] *Survey of the Economic Situation and Prospects of Europe* (United Nations Economic and Social Council), reprinted for the use of the Senate Committee on Foreign Relations (Washington, D. C., 1948), p. 101.

ences in prices and costs between countries also tend to encourage barter trade since normal commercial trade at existing rates becomes impossible.

d. *The existence of large international debts which must be serviced in gold or hard currencies.* Debt service payments represent an inflexible item in a country's balance of payments and make adjustments *via* the merchandise balance more difficult.

e. *The inability or unwillingness of nations to achieve internal price stability.* Many nations have plans for reconstruction and development programs which will require large annual capital outlays for the next decade or more. The constant pressure for higher wages and the demand for social reforms and betterment of the working classes may, however, mean a level of savings insufficient to finance such programs except by inflationary devices. Whether inflation is open, *i.e.,* accompanied by price rises, or suppressed, *i.e.,* accompanied by rationing and price controls, imports will be encouraged and exports discouraged and a balance will be difficult to maintain. Under inflationary conditions, either foreign exchange rates must be permitted to rise or import controls must be employed. Most governments, however, prefer controls to devaluation since devaluation increases the prices of essential commodities which in turn adds to the internal inflationary process.

f. *The almost universal adoption by governments of fiscal and monetary policies which seek to control the volume of monetary demand independently of the volume of monetary reserves and of the balance of payments.* The whole principle of automatic correctives rests on the assumption that internal monetary demand will be responsive to changes in the payments balance without deliberate interference on the part of the economic authorities. The existence of inflexible prices plus the power of trade unions to prevent wage reductions even in the face of unemployment, may require the monetary authorities to offset the effects of an adverse balance in order to avoid severe depression.

In the light of the above developments, it seems unlikely that automatic correctives will be available for maintaining a reasonable degree of international balance, even after the present structural maladjustments brought about by the war have been eliminated. Internal economic policies are likely to be determined primarily with reference to governmental planning considered necessary to achieve domestic objectives such as full employment, capital reconstruction and development, and higher living standards for the masses. Foreign trade and exchange policies must be adjusted to the needs of the domestic economy for carrying out these objectives. Under these circumstances, many nations may be unable to adopt foreign economic policies which

are consistent with a current international balance achieved without the use of controls.

The Significance of International Equilibrium

The concept of international equilibrium as it is generally used in economic literature is based on the classical postulates of a world in which economic decisions are made by free private enterprise operating without governmental interference, except for tariffs. The usual test of whether or not a country is in equilibrium is to determine whether total receipts from current transactions plus long-term capital imports are equal to total current payments plus long-term capital exports. A true equilibrium in the classical sense cannot exist if it is achieved by means of exchange and trade controls. But, in a country which maintains a high degree of internal economic controls, direct or indirect control over foreign trade is almost inevitable. A nation is not likely to nationalize its steel industry and permit free foreign trade in steel, nor is a nation which finds it necessary to allocate scarce materials among domestic producers likely to permit free foreign commerce in these scarce materials or the products manufactured from them.

The question arises as to what significance the concept of equilibrium has for controlled or partially controlled economies. In the case of state-controlled economies, we might define equilibrium in terms of internal and external cost-price relationships.[3] Thus a nation would be in equilibrium if it purchases everything abroad which could be obtained at prices below domestic costs and exported everything not consumed at home at prices which covered domestic costs, provided total receipts and expenditures were equal after adjustment for long-term capital movements. It is theoretically possible for planning to achieve just this result, but this ideal has never been approached by planned economies either because the planners have been more concerned with non-economic ends or because of poor planning. One difficulty is that the government rather than the ultimate consumer may frequently make the decision to increase or decrease imports. Suppose, for example, that the government decides to expand its purchases of foreign capital equipment. In order to maintain equilibrium, shifts in internal production and in aggregate monetary demand would have

[3] It should be pointed out that the political authorities in controlled economies may have non-economic ends which often conflict with economic ends such as the maximization of real national product, *e.g.*, the carrying on of economic warfare or the liquidation of the Kulaks. Moreover, different economic ends may conflict. For example, efforts to secure a more equitable distribution of income for the purpose of maximizing welfare may conflict with the maximization of the national product in the future. Hence, in defining equilibrium for any given nation we would need to take into consideration both economic and non-economic ends.

to be made so that imports of consumption goods will be reduced or exports increased sufficiently to restore the balance without rationing and without violating price-cost ratios. In so-called "mixed" economies where the government controls investment in certain fields and hence imports of capital equipment, the problem of adjustment would appear to be even more difficult than in completely controlled economies.

A definition of equilibrium in terms of internal and external price-cost relationships is not likely to be very useful in dealing with immediate problems, although it has theoretical significance as an ideal for all countries to strive for. A practical concept of short-term equilibrium must take into account the organization of the particular economy under consideration and the economic objectives which the economic authorities have in mind.[4] Thus in a relatively free economy the balance should be achieved with a minimum of trade controls. On the other hand, in a controlled economy one would expect controls on external trade which were consistent with internal controls and with the objectives of the planning authorities. If it were the policy of the economic authorities that the nation could not afford to consume certain luxury commodities, their importation as well as their domestic production would properly be forbidden. Or if the government decided to use a larger proportion of the nation's foreign-exchange receipts for imports of capital equipment and to direct consumer expenditures away from imports, appropriate controls might be employed.

How then shall we define short-term equilibrium for a controlled economy? It can only be defined in terms of some deliberate plan for the employment of the resources of the economy and the distribution of the product among the consumers. Presumably the economic authorities will determine certain production goals and certain standards of consumption consistent with the productive capacity of the country. We might define equilibrium for a controlled economy as a condition in which current foreign-exchange receipts were sufficient to pay for that volume of imports necessary to (1) carry out a production plan based on the most efficient use of existing productive resources and plant capacities in the light of consumption and investment goals, (2) achieve a predetermined program of investment, and (3) maintain a predetermined level and composition of consumption. The level of capital investment may be determined by the amount which the economic authorities believe is necessary to achieve equilibrium at some point of time in the future in the light of the consumption goals of the planning authorities, or it may be dictated by the requirements of military pre-

[4] It must be kept in mind that these economic objectives may be dictated by underlying political objectives.

paredness. The consumption goals may be related to some historical or accustomed level or to that level which is believed to be the minimum necessary for political stability.

In the case of "mixed" economies, the concept of equilibrium must take into consideration the ability of the country to balance its international accounts without the aid of exchange and trade controls outside of the controlled sector, while at the same time financing those imports necessary to achieve its pre-determined goals in the controlled sector. For example, the government might control imports of all industrial raw materials, capital equipment, and basic foodstuffs but in the absence of balance-of-payments difficulties would permit free importation of other categories of commodities.

If in the case of controlled or partially controlled economies short-run equilibrium as we have defined it is consistent with the existence of trade controls, what are the criteria for determining the existence of disequilibrium? Clearly a country is not in equilibrium if its current receipts of foreign exchange, including normal capital imports,[5] are insufficient to pay for the raw material imports required to maintain its industries at the desired level of production, the imports of essential commodities needed to maintain pre-determined standards of consumption, the imports of capital equipment and materials for planned investments, and for its various commitments on invisible account. It may turn out that balance-of-payments equilibrium in the short run is impossible except at the cost of a disruption of important industries, the shelving of urgent reconstruction projects, or a politically disastrous reduction in living standards. This is indeed the situation among many of the countries included in the European Recovery Program. When a disequilibrium develops, controlled economies must either draw on their reserves, obtain financial assistance from abroad or reduce their imports. Unless there exists a substantial volume of luxury or nonessential imports, a reduction in imports may be quite difficult to achieve in the short run because the economy is geared to a particular level of import requirements. In time, industries can be reorganized, substitutes for imported commodities can be found and standards of consumption can be altered. Equilibrium in controlled economies, however, is eventually restored not so much by the effects of the shift in the balance of payments on incomes and prices, but by a realization of the plans of the economic authorities for the achievement of their investment and consumption goals without further for-

[5] Normal capital imports exclude emergency loans and grants from other countries and international lending organizations. They would include loans from the World Bank and the Export-Import Bank for planned capital investments.

eign assistance or the liquidation of reserves, or by a revision of their basic economic plans and objectives.

In the case of partially controlled economies, an evidence of disequilibrium would be an extention or tightening up of existing import controls or the failure to achieve desired objectives in the controlled sector. Additional exports might be brought under the licensing system and perhaps an effort made to increase exports by diverting resources from commodities produced for home consumption. Restoration of equilibrium in partially controlled economies can be said to be completed only after temporary restrictions on transactions in the uncontrolled sector have been removed. Thus, if the economic authorities have brought raw materials, investment goods and basic foods and fibers permanently under state control, but normally permit the free importation of consumers' goods, any restriction on the importation of consumers' goods might be considered as a departure from equilibrium, unless similar restrictions or taxes were placed on domestically produced goods of the same general type. The latter would of course represent an extention of the controlled sector of the economy.

To say that disequilibrium exists for controlled economies when plans are not realized may be open to the charge of question begging. However, there is a genuine need for a working concept of equilibrium applicable to controlled economies.[6] The concept of balance-of-payments equilibrium is employed in the decisions of international financial institutions such as the Monetary Fund and the World Bank, and plays an important role in determining the need for financial assistance under the European Recovery Program and other U. S. government foreign aid programs. It is an important tool in international economic analysis generally and needs to be redefined to conform with current realities. The point to be kept in mind is that disequilibrium has significance only in the context of the organization of the economy under consideration, and of the objectives of its planning authorities. The fact that a country is unable to achieve a balance in its international accounts can no longer be employed as a criterion for the granting of short-term financial assistance in the expectation that the balance will in time be automatically restored. Nor can this fact always be considered as a sufficient justification for exchange depreciation or other remedial actions on the part of the country concerned.

Balance-of-payments deficits may be planned or unplanned under

[6] See my "Role of the International Monetary Agreements in a World of Planned Economies," Jour. Pol. Econ., Vol. LV, No. 6 (Dec., 1947), pp. 497-512. See also my "Reply" to a criticism of this article, Jour. Pol. Econ., Vol. LVI, No. 5 (Oct., 1948), pp. 446-50. It has been suggested that we need a new term such as "planned international balance" to describe equilibrium for controlled economies.

controlled or partially controlled economic systems. Obviously such deficits will not be planned unless the means of meeting them are available. The deficits of the ERP countries are planned, and the Economic Cooperation Administration has asked the countries receiving United States financial aid to plan their investment, production, and trade so as to enable them to achieve certain consumption goals by 1952 without further United States assistance. Whether or not the realization of these goals, assuming they can be realized, will mean equilibrium for the European Recovery Program countries, depends upon the organization of their economies and their ability to achieve a balance in their international accounts without the use of restrictions which violate the basic principles of their particular economic organization, *e.g.*, import quotas needed for balance-of-payments reasons imposed on types of commodities the consumption of which is normally not controlled.

Controlled and "mixed" economies may also experience unplanned deficits in their balance of payments. Among the causes of unplanned disequilibrium we may cite war and national disasters, crop failures, strikes and political disturbances, domestic inflation, the inability to market exports abroad either because of price factors or shifts in foreign demand, or simply poor planning and forecasting. In the case of "mixed" economies where production and distribution are only partially controlled, planning and forecasting become much more hazardous and consequently equilibrium more difficult to maintain. For the uncontrolled sector of the economy reliance must be largely on indirect controls of a monetary and fiscal nature.

Thus far, we have spoken of disequilibrium in terms of a country's over-all balance. In periods when currencies are almost universally inconvertible a country may be in over-all balance but because of the inability to convert current surpluses with some countries into the currencies of other countries, that country may find it necessary to direct its trade by discriminatory measures. Such measures would include discriminatory import regulations against the country whose currency was in short supply and perhaps measures designed to increase exports to that area. Although this is a clear case of disequilibrium for the country concerned, the country may be the victim of a worldwide disequilibrium. In such cases the remedy may lie beyond the power of the individual country acting unilaterally, except at the cost of far-reaching changes in the pattern of its international trade.

Sources of Postwar Disequilibrium

In discussing the sources of postwar disequilibrium, it is important first of all to make clear just what kind of disequilibrium we are talk-

ing about. The vast majority of the countries have what we have called "mixed" economies with varying degrees of governmental control. The long-run objective of most of these countries is to achieve a large measure of consumer choice with respect to home-produced and imported commodities alike, and also to restore to private enterprise a large measure of freedom as to what to produce and where to sell, and where to buy raw materials and capital equipment. Unless these countries can count on foreign assistance for an indefinite period of time, they must either achieve equilibrium in the sense in which we have used it in the preceding section, or they must abandon certain of their economic objectives. The alternatives may be the abandonment of certain investment or social welfare objectives, or the objectives of restoring freedom of consumers' choice and freedom for business enterprise in certain fields. The failure of a "mixed" economy to restore freedom of consumers' choice and freedom of business enterprise in those sectors of the economy for which such freedom is required in accordance with the basic structure and objectives of the country concerned will be considered as an evidence of disequilibrium for that country. One of the reasons for such failure may be the fact that the restoration of economic freedom is found to be incompatible with other economic objectives considered to have a higher priority. Disequilibrium for a "mixed" economy would also be evidenced by an inability to purchase with current foreign-exchange receipts sufficient imports to achieve a reasonable level of productive efficiency and standard of consumption, consistent with its productive resources. This would also be an evidence of disequilibrium for more or less completely controlled economies. In the following paragraphs we will discuss the sources of postwar disequilibrium in the special sense in which we have just defined it.

The major source of disequilibrium in the immediate postwar period has been the destruction and general dislocation caused by the war itself. Given a few years of peace and adequate Western Hemisphere assistance to rebuild and restock the major economies of the world so as to permit a return to something like prewar per capita production levels, the disequilibrium resulting from the physical destruction and temporary disruption of production and commerce caused by the war can be eliminated. What we are concerned with here are possible sources of disequilibrium which may persist perhaps for the next generation or more, after production has been restored to a level approximating the potentialties of the human and material resources of the countries of the world. For purposes of analysis I have classified these sources of disequilibrium in four categories: (1) relative changes in levels of real national income; (2) domestic economic instability; (3) changes

in international creditor-debtor relationships; and (4) shifts in the structure of world production and in the character of world demand. Both (3) and (4) may give rise to what was called "structural disequilibrium" in the opening paragraphs of this article. However the changes in the "income from investment" account in the balance of payments of most trading countries have been so significant as to warrant separate treatment. These four categories are by no means water-tight and it will be readily seen that developments in any one of them will affect the other three.

1. *Relative Changes in Incomes*

Of the four general sources of disequilibrium outlined above, probably the greatest emphasis in recent years has been placed on relative shifts in national incomes as the leading cause of disequilibrium.[7] This concern is largely based upon the fear of another major depression in the United States. While I quite agree that relative shifts in the levels of national income may be an important factor contributing to disequilibrium in the postwar years, it is by no means certain that economic conditions of the early 1930's will be repeated. In fact, there is reason to believe that national governments are not likely to permit prolonged and severe depressions in the future. Not only have the governments of nearly all major countries, including that of the United States, accepted as a matter of national policy the responsibility for maintaining high levels of employment, but the increased functions of government have brought a substantially larger proportion of the national income under the control of governmental authorities.

Although we may not again see depressions of the 1929-1933 proportions, shifts in the relative levels of income may still be an important source of international disequilibrium. Short-term cyclical movements in incomes and employment and perhaps extended periods of moderately high unemployment are of course quite probable in the United States and other countries where economies are largely uncontrolled. Although controlled economies will also be subject to fluctuations in real income and employment with changes in the structure of production, governmental authorities are better able to maintain total monetary demand. Hence, money income, if not real income, is less likely to decline in the controlled economies than in the relatively free economies.

If we are to separate relative changes in national income from other causal factors, we must consider only changes in real income. In spite

[7] See, for example, T. Balogh, "The International Aspects of Full Employment," *The Economics of Full Employment* (Oxford Institute of Statistics, 1944).

of the fact that, barring depressions, real income in the United States may continue to increase at a rate of 3 to 4 per cent per year, it is quite possible that real incomes in many undeveloped areas of the world will rise more rapidly than in the United States. The industrialization programs of Latin America and Asiatic countries, and perhaps a more efficient utilization of human and material resources in previously undeveloped or primitive areas may well make for a rapid expansion in real incomes the world over. Thus disequilibria from shifts in relative incomes in different countries may come not so much from depressions in the United States as from continually rising incomes abroad. The propensity to import in most countries of the world is undoubtedly higher under present conditions than in the United States where a diversified economy supplies most of the things for which consumers have a high income elasticity of demand.[8] Given a higher propensity to import abroad than in the United States, disequilibrium could accompany an increase in incomes in the rest of the world at the same rate at which United States national income increases. But this situation may only be true in the short run. The potential demand for foreign goods of a luxury or semi-luxury type requiring a high proportion of labor may turn out to be quite large if foreign sellers were to market and advertise on a nation-wide scale.

2. *Domestic Instability*

The Western World has lived so long in fear of unemployment and deflation that the possibility of a generation of more or less continual inflationary pressures has not been given very serious consideration. Yet if economies in which investment decisions are made by private enterprise tend toward underinvestment, economies in which investment is largely in the hands of the state may suffer from the opposite condition. Moreover, once the economic authorities have adopted a policy of maintaining full employment and have equipped themselves with the necessary monetary and fiscal instruments for carrying out this objective, errors in planning and forecasting are likely to be made only in the direction which involves the less serious political consequences.

Almost every country, from the most backward agricultural countries to the more advanced industrial ones, has reconstruction and development plans requiring large amounts of capital and foreign ma-

[8] Dr. T. C. Chang in an article entitled "International Comparison of Demand for Imports" has calculated the income elasticity of demand for imports for a number of countries. In the case of highly industrialized countries like the United States and the United Kingdom, income elasticity is shown to be substantially lower than income elasticities in less industrialized and agricultural countries. *Review of Economic Studies*, Vol. XIII (2), No. 34 (1945-46), pp. 53-67.

terials and equipment.[9] This development is likely to affect the demand for United States products in two important ways. First, the demand for United States capital equipment may be maintained at a relatively high level for the next generation or so, since barring another world war, only the United States may have the surplus productive capacity to meet world needs for a large number of capital items. Regardless of competitive price adjustments there would be only one country capable of meeting the demand. A second way in which the potential demand for United States commodities may be sustained at a high level is through the increased purchasing power of the masses in the countries undergoing rapid capital development. In many countries industrialization will undoubtedly be accompained by a redistribution of income in favor of the working classes at the expense of landed aristocracy or other property owners. Such redistribution will mean a reduction in the propensity to save and an increase in the propensity to import. At the same time, the development projects will be absorbing a large share of the foreign exchange receipts and may in some cases reduce the proportion of material and human resources available for the production of exports.

In order for large-scale capital projects calling for an accelerated rate of capital accumulation to be financed from internal sources without inflation, it is necessary either to have unemployed human and material resources or to put into operation a rigorous system of fiscal, monetary,[10] wage, and credit controls which will restrict purchasing power to the amount of available consumers' goods. External financing through loans or grants for developmental purposes are likely to be limited to the foreign exchange required to purchase the materials and equipment directly employed in the project itself and which are not available from internal sources.[11] Ordinarily one-half to two-thirds of the expenditures on capital projects are made for local materials and services. In few countries outside of the United States is there a large volume of volutary saving available for domestic investment, and rapid capital accumulation can only be realized at the expense of living standards which are already low relative to prewar standards. Moreover, few governments have the courage to take the necessary steps to curtail

[9] See *Economic Report: Salient Features of the World Economic Situation, 1945-1947*, United Nations, Department of Economic Affairs (Lake Success, Jan., 1948), pp. 243-55, for a summary of investment projects in various countries.

[10] Some economists believe that a substantial increase in the volume of savings can be induced by raising interest rates, although in the opinion of the author there are severe limitations on purely monetary measures.

[11] For example, neither the World Bank nor the U. S. Export-Import Bank will ordinarily make loans to finance local currency expenditures in the borrowing country.

the purchasing power of the masses as a means of reducing real consumption. The propensity to save has been generally reduced by mounting taxes on the wealthy and most countries are seeking to raise the real incomes of the masses by an extension of social services. The net result is that capital accumulation in many foreign countries is being financed in large measure through inflation.[12]

For many countries, the need for rapid capital investment in order to achieve the structural changes necessary to realize international equilibrium within a relatively short period presents a real dilemma. If monetary incomes are restricted to the point where consumer demand just equals the current output of consumers' goods, the expansion of production in certain fields may be accompanied by a disruption of other industries. Inflexible wage policies on the part of labor unions plus the necessity of attracting labor and resources to the investment industries may render extremely difficult the realization of production goals in the face of disinflationary policies. Disinflationary measures may also be hampered by the existence of sizeable accumulations of liquid assets in the hands of the public which could be used to defeat attempts to lower consumption standards on the part of the holders. It is quite likely, therefore, that many countries will find it impossible (for political and economic reasons) to carry out large investment programs and avoid a certain degree of domestic inflation at the same time.

How long will disequilibrium from these sources continue? Essentially what we are confronted with are the international repercussions of a worldwide trend toward the socialization of investment, *i.e.,* the transfer of investment decisions from private to governmental or quasi-governmental authorities. We are also confronted with the international repercussions of a redistribution of income in favor of the masses and a general weakening of the influence of the international pricing mechanism in economic decisions over production and consumption. In time, patterns of economic controls may be evolved which will restore domestic stability and international equilibrium. The new capital instruments may raise real per capita income (unless defeated by population pressure) and economic authorities may adopt appropriate controls which will relate money incomes and voluntary saving to the level of capital expenditures. Finally, imports for investment purposes will have to be planned in relation to the over-all demand for imports in such a way as to avoid either a balance-of-payments deficit or an in-

[12] The ratio of gross domestic investment to gross national product is substantially higher than prewar in the case of many European countries. For example, in the case of the United Kingdom the ratio was 20.4 per cent in 1947 as compared with 14.5 per cent in 1938. (Source of data: *National Income and Expenditure of the U. K., 1947* [Md. 7371]) A similar increase in this ratio appears to have taken place in France and the Netherlands.

crease in the scope of direct consumer controls not contemplated by the basic plan for the economy.[13]

3. *Changes in Creditor-Debtor Relations*

A source of postwar disequilibrium which especially affects the United Kingdom and certain countries of Continental Europe is the loss of prewar sources of invisible income. In 1938, net invisible income for Europe as a whole from non-European sources amounted to about \$2.1 billion, an amount which equaled Europe's deficit on trade account.[14] In 1947, Europe had a net deficit on invisible account of \$0.6 billion, \$0.4 billion of which was with the United States. A part of this deterioration in Europe's invisible account is due to a temporary reduction in tourist trade and shipping services, and we may look forward to a rapid restoration of these sources of income. The large overseas expenditures for maintaining troops and fighting colonial wars, and for relief in occupied areas may also be regarded as temporary. However, approximately a billion dollars of the reduction in Europe's net invisible income is accounted for by a net reduction in income from foreign investment, about half of which can be attributed to the United Kingdom alone.

Although income from investments in certain of the war-devastated areas may be eventually restored, the over-all position of Europe on investment account is certain to deteriorate with the making of interest payments on the large dollar loans. From July 1, 1945 through June 30, 1948, loans and credits to foreign countries by the United States government totaled nearly \$12 billion and an additional \$1.2 billion was loaned or committed by the World Bank and the Monetary Fund. If we add to these amounts long-term private investments abroad since the war, we reach a figure of over \$15 billion on which service in dollars must be made, the vast bulk of which must come from the countries of Western Europe. Over the next three years, assuming that the Economic Cooperation Administration program is continued, total foreign investment on both private and governmental account is likely to increase by another three to four billion dollars, with perhaps an additional \$2 or \$3 billion in loans from the World Fund and Bank. The net effect of these loans upon the international balance of payments will of course depend upon whether or not new loans will continue to be made in amounts sufficient to offset repayments. Private foreign investments probably cannot be counted on to maintain the necessary gross level of investment so that the outcome becomes largely a matter

[13] For example, if consumers are to be denied certain luxuries they should be denied both foreign and domestically produced luxuries of the same category.

[14] See *A Survey of the Economic Situation and Propects of Europe*, p. 55.

of United States governmental lending policy. But interest payments alone on over $20 billion in additional foreign indebtedness will absorb a significant portion of the dollar income of the rest of the world.[15]

4. *Structural Changes*

Probably the most serious obstacle to the restoration of a balanced world economy which would permit countries, planned and unplanned, to achieve the maximum efficiency in the use of their productive resources and the highest living standards for their people lies in deep-seated maladjustments in the structure of world production and demand. Some of these structural factors are a direct outgrowth of the late war, while others are perhaps a product of far-reaching socio-political and technological development which are taking place too rapidly to be accommodated by the international economic organism. We will summarize some of these structural factors in the following paragraphs.

Although the overwhelming demand for United States commodities during the immediate postwar period can be explained by the disruption of production outside the Western Hemisphere caused by the war, the capital needs for reconstruction and the backlog of deferred demand built up during the period of wartime shortages, there is considerable evidence that the potential demand for United States commodities in excess of the dollars supplied by United States imports may continue for many years after prewar production levels have been generally restored or even substantially exceeded. Mention has already been made of large-scale industrialization and development programs throughout the world which call for large amounts of specialized capital and materials available in surplus quantities only in the Western Hemisphere. This enlarged demand for investment type comodities may be superimposed upon the normal heavy dependence upon United States and Western Hemisphere exports, unless offset by compensating shifts in demand for the exports of other areas. Such shifts, however, do not depend simply upon competitive price relationships but are in

[15] According to the Department of Commerce publication, *International Transactions of the U. S. During the War,* by 1951 receipts of interest and amortization on all U. S. government postwar loans should amount to about $450 million, and if dollar loans through the International Bank should rise to $4 billion, an additional $200 million in interest and amortization will be required. Together with payments of around $1 billion on loans and investments existing at the end of the war, total payments will amount to $1.6 or $1.7 billion before allowance is made for additional governmental and private loans and investments in the years following 1947 (p. 161). During 1947 and 1948 net private long-term capital flow has been averaging around $700 million per year, and over $1 billion in loans were extended by the United States during 1948. It seems quite likely therefore that earnings and amortization payments owed to the United States will be well over $2 billion by 1951.

considerable measure dependent upon the creation of new sources of supply in areas outside the Western Hemisphere.

What is the result of a shift in world demand in favor of the products of a particular country or area? Let us assume that before the shift occurs all countries have succeeded in achieving a balance in their current international accounts. Immediately after the shift certain countries will find themselves with current account deficits which they must correct by reducing their imports or by adopting measures to expand their exports either to the country or area whose exports have increased, say the United States, or to third countries. Now let us assume for the moment that the demand for imports on the part of the United States is inelastic, and that the elasticity of substitution between United States exports and the exports of the rest of the world is quite low. Under these assumptions, equilibrium must be restored either by an expansion of production in the rest of the world of the commodities which constitute the exports of the United States or by a reduction in the demand for these commodities. But it may not be possible to realize either of these alternatives without substantial adjustments in the structure of world production.

The immediate effect of a shift in world demand in favor of a country like the United States may be a world shortage of dollars and the consequent inability of some countries which normally have deficits within the dollar area to discharge these deficits by converting surpluses with other areas into dollars. Canada and Belgium are examples of countries whose balance of payments difficulties in the postwar are in large measure traceable to this factor. Europe as a whole normally has a deficit with the United States which is settled by dollars earned largely from the Far East. It is quite possible that countries such as India, Indonesia and Malaya will no longer be important sources of net dollars for Europe in the future. The greater political independence of these countries has been accompained by a desire for rapid industrialization and the inauguration of large-scale development projects. There is considerable evidence that these countries will use their dollar earnings for purchases in the United States rather than transfer them to Europe as was the case before the war.[16]

[16] The prospects of Europe's being able to settle its deficit with the United States by means of a surplus with non-European countries other than the United States is discussed in the United Nations' Report entitled "A Survey of the Economic Situation and Prospects of Europe," p. 69 ff. This Report concludes as follows: "The huge disequilibriums manifested in their (non-European countries) trade with the United States in 1947 is bound to diminish sooner or later. But the demand for imports from the United States, while not capable of being fully satisfied, may well continue to press hard against the available supply of dollar exchange and to leave little over for trade settlements with Europe" (p. 70).

Another structural factor which may contribute to a possible chronic disequilibrium in the postwar period is the heavy dependence of Western Europe on the Western Hemisphere for agricutural products.[17] This dependence has increased with the decline in grain imports from Eastern into Western Europe. To the extent that this decline is the result of physical factors, *i.e.*, shortages of farm equipment, etc., it may be temporary. But there is evidence that political factors may also be responsible for the reduction in exportable surpluses of agricultural commodities by the Russian dominated economies.[18]

While the rest of the world has become increasingly dependent upon United States agricultural products, the technical superiority of United States industrial production makes it difficult for other industrial countries to compete with our manufactured products both in United States and foreign markets. An abundance of capital and superior production techniques, coupled with a large internal market provides an enormous advantage in most fields of industrial production. While it is true that trade takes place in response to differences in comparative costs rather than absolute costs, a country which is continually introducing new techniques which lower costs and is able to introduce new products which capture the fancy of the rest of the world may be able to maintain a more or less permanent competitive advantage. This does not mean that equilibrium could not be restored, but the required adjustments may not be made rapidly enough to compensate for continual changes in the structure of world demand and supply. Finally, mention should be made of the tendency on the part of the United States to make itself independent of raw material imports from outside the Western Hemisphere. The tin smelter on the Texas seaboard and the synthetic rubber plants are evidences of this development. Economic independence in a growing number of fields has become a matter of governmental policy for reasons of national defense. Offsetting these autarchic tendencies is the fact that the United States is rapidly reducing its reserves of some important natural resources, *e.g.*, petroleum, copper, iron ore, lead and zinc.

Means of Correcting International Disequilibrium

In discussing measures for correcting balance-of-payments disequilibrium, we must distinguish between actions undertaken by countries

[17] By 1951, Europe's bread grain production is expected to reach 96 per cent of the prewar level. But to achieve prewar consumption Europe will, according to estimates by the Food and Agriculture Organization, need to import 15.5 million tons of bread grain, annually, or 6 million tons more than prewar. Of this, some 6 to 8 million tons will have to come from the United States. (See *New York Times*, September 3, 1948).

[18] See for example, "Food from Eastern Europe," *The Economist*, for July 17 and July 24, 1948.

unilaterally and those adjustments which need to be taken by several countries in concert. Certain of the deep-seated maladjustments in the world today are not likely to be resolved by unilateral action alone. This is particularly true of structural maladjustments such as those which characterize the postwar European economies. It is for this reason that the ECA is insisting on a cooperative self-help program for the European Recovery Program countries rather than the granting of United States aid on a country-by-country basis. There are, in general, four types of measures which may be taken for the correction of disequilibrium: (1) monetary, fiscal and other economic measures designed to achieve internal economic stability; (2) exchange rate adjustments; (3) bilateral or multilateral trading arrangements; and (4) adjustments in the structure of production.

1. *Measures for Internal Stability*

There can be little doubt that the achievement of internal stability is frequently necessary for the correction of balance-of-payments difficulties on the part of planned, "mixed," and unplanned economics alike. The general level of purchasing power must be related to the volume of consumers' goods, both home-produced and imported, which is made available. In the case of completely controlled economics where the volume of consumers' goods, both imported and home-produced, is directly controlled, an excess of disposable income in the hands of consumers would not directly affect the trade balance. Price inflation and the diversion of rationed commodities to black markets might, however, result in a maldistribution of real income which would seriously impair the living standards and productive capacity of a portion of the population. This result would be an evidence of disequilibrium according to the criteria which we have established above. In mixed and uncontrolled economies, where home investment and foreign trade are partly or wholly determined by private decisions, monetary and fiscal measures will need to be largely relied upon for limiting purchasing power, for encouraging exports, and for determining the volume of savings, investment, and the general level of imports. This does not mean that direct controls can always be dispensed with by uncontrolled economies. Sudden shifts in the trade balance require time to correct by fiscal and monetary measures. Moreover, it may not be possible to reduce total monetary demand sufficiently in the short run to achieve an international balance, without causing great economic hardship and unemployment.

It is frequently said that all a country needs to do to restore international equilibrium is to adopt appropriate monetary and fiscal controls. If by this statement it is meant that a country can apply defla-

tionary measures to the point where its international account is balanced without the aid of external trade controls, no one can dispute it. However, unless certain structural changes take place in the economy, the results of drastic deflationary action may very well be disastrous for production and living standards. Deflationary measures may be prevented from shifting resources to the export industries by price rigidities, or a lack of mobility of labor and other factors of production. Moreover, it may prove impossible for a country to undertake a large investment program under conditions of full employment without at least a certain degree of inflation. This is particularly true where trade unions are able to prevent any downward adjustment of wages and continually press for an increase in existing wage scales.

2. *Exchange Rate Adjustments*[19]

Although a country may not be able to reduce its monetary income and prices by deflation, it can always reduce them in terms of foreign currencies by devaluation.[20] The effect of exchange devaluation on a country's balance of payments will depend upon a number of complex economic and institutional factors including (a) the system of economic controls in the economy; (b) the demand and supply elasticities of the commodities and services entering into the balance of payments of the country in question; (c) the capacity of the country to make the adjustments in the structure of its productive facilities in response to alterations in external and internal cost-price relationships; and (d) the repercussions of devaluation upon the trade and exchange policies of other countries.

a. *The system of economic controls.* In an economy in which all imports are rigidly controlled and exportable surpluses determined by allocation, the chief function of the exchange rate may be that of influencing the demand for exports. (It may not even have this function in a state controlled economy which prices its exports independently of domestic costs.) In economies in which export demand is permitted to compete with domestic demand, the rate will influence the volume of commodities directed to the export market. This fact is frequently overlooked by those who claim that devaluation cannot improve the balance of payments because the country in question is having no

[19] For excellent discussions of the effects of exchange rate adjustments upon the balance of payments see Howard S. Ellis, "The Dollar Shortage in Theory and Fact," *Canadian Jour. Econ. and Pol. Sci.*, Vol. 14, No. 3 (Aug., 1948) pp. 301-11; and Lloyd A. Metzler, "The Theory of International Trade," in *A Survey of Contemporary Economics*, edited by Howard S. Ellis, (Blakiston, 1948), pp. 210-54.

[20] This is true only in the short run. Over a longer period, the initial reduction in prices in terms of foreign currencies may be offset by an increase in domestic prices brought about by the devaluation, or by competitive depreciation on the part of other countries.

difficulty in selling its exportable surpluses. The latter argument is intelligible only if it is assumed that a further diversion of resources to the export industries will reduce consumption standards to an intolerable level or prevent the making of capital investments which are necessary for the eventual restoration of equilibrium.

Where imports are rigidly controlled, devaluation will not reduce imports unless import prices rise sufficiently to reduce demand below existing import quotas. Also where only unessential imports are limited by direct controls, devaluation may fail to reduce imports if the demand for essential imports is quite inelastic. The rise in the domestic prices of imports may, however, be significant for the restoration of the balance of payments, since consumer demand may be diverted from the products of home industry, thereby releasing additional resources for the export industries. Whether or not devaluation is inflationary depends upon the wage policy, the fiscal and monetary policies, and the amount of latent inflation already present in the economy. Thus the argument that for a country which controls its imports by direct means and has no difficulty in selling its exports devaluation is merely inflationary and will not improve the trade balance, needs to be re-examined.

b. *Demand and supply elasticities.* Recent statistical estimates of the demand for imports in various countries have revealed remarkably low price elasticities.[21] It has also been shown that the elasticity of world demand for the total exports of most countries is substantially less than unity.[22] Great care must be exercised in drawing conclusions from these statistically derived estimates of import demand elasticities as regards the effects of exchange rate adjustments on the trade balance. Although in the short run at least, the demand for a nation's

[21] See T. C. Chang, "International Comparison of Demand for Imports," *Rev. Econ. Studies*, Vol. XIII (2), No. 34, pp. 53-67. In this article Dr. Chang estimates the price elasticities of import demand for the United Kingdom and the United States for the interwar period to be —0.28 and —0.97 respectively; see also Randall Hinshaw, "American Prosperity and the British Balance of Payments Problem," *Rev. of Econ. Stat.*, Feb., 1945.

[22] See, for example, T. C. Chang, "A Statistical Note on World Demand for Exports," *Rev. of Econ. and Stat.*, Vol. XXX, No. 2 (May, 1948), pp. 106-16. Dr. Chang shows that for the interwar period the sum of the elasticities of home and foreign demand was for most countries close to unity. In a few countries this critical value was above unity but for the United Kingdom, for example, it was —0.68. In an unpublished paper Dr. Randall Hinshaw points out that since most statistically derived estimates of the elasticity of demand assume a constant level of real income, *i.e.*, the level of income is held constant by means of partial correlation, the effects of the fall in real income in a depreciating country are ignored. The fall in real income resulting from the rise in domestic prices of internationally traded commodities will tend to shift the demand curve for imports to the left. Thus it is quite possible for a country's over-all demand for imports, at a given level of real income, to be inelastic with respect to price and, at the same time, for depreciation to be accompanied by a reduction in the domestic (as well as the foreign currency) value of imports.

imports may be largely determined by the structure of its production and trade and by its national income, changes in exchange rates are capable of bringing about shifts in the demand for imports and in the supply of exports through changes in real income and other changes which may not be accounted for by estimates of demand elasticities derived from cyclical data.

The existence of short-run inelasticities of demand for *total* imports and for the world demand for the *total* exports of individual countries is by no means conclusive evidence that exchange depreciation cannot improve a country's balance of payments. In the first place the demand for a portion of a country's imports and certain of its commodity exports will undoubtedly prove to be elastic. Even if we assume that the total demand for imports is inelastic, total expenditures for imports in terms of *foreign* currencies must decline with devaluation so long as there is any reduction in the physical quantities imported.[23] If the supply of imports is less than perfectly elastic, there will be a further saving of foreign exchange.

Turning to the demand for the exports of a country, even though total world demand is inelastic, the demand for a portion of its exports will undoubtedly prove to be elastic. The net effect of devaluation will depend upon what happens to the prices of its exports in terms of foreign currencies, *i.e.,* the elasticity of supply of the devaluing country's exports. If devaluation enables the country to reduce the foreign currency prices of those commodities for which the demand is elastic while maintaining the foreign currency prices of those commodities for which the foreign demand is inelastic, its balance-of-payments position will be improved.

It is clear that, in considering the effects of devaluation on a country's balance of payments, we must be concerned not only with demand elasticities for imports and exports but also with supply elasticities and pricing policies.[24] If the supply of those exports for which the demand is inelastic is also inelastic (or if prices in terms of foreign currencies are maintained by private cartels or government control) and if both the supply and the demand for the remaining exports are elastic, devaluation will increase total foreign-exchange receipts from exports. Moreover, it is not necessary to assume that devaluation will reduce a country's terms of trade for all or even the bulk of its trade.

[23] Total expenditures on imports in terms of foreign currencies will decrease with a fall in the exchange rate as long as the elasticity of total demand for imports is greater than zero.

[24] See Joan Robinson, "The Foreign Exchanges," in *Essays in the Theory of Employment,* 2nd ed. (Oxford, 1947), p. 142, n. 1. Mrs. Robinson points out that an improvement in the balance may be achieved by devaluation even where the sum of the elasticities of the demand for exports and the demand for imports is less than unity, provided the supply elasticities for imports and exports are sufficiently small.

c. *The ability to make structural adjustments.* A third important consideration in determining the effects of devaluation concerns the relationship between devaluation and the structure of the economy. A change in internal and external price-cost relationships may be a necessary but not sufficient cause for the restoration of a country's balance of payments. A lack of capital, price and wage rigidities, inadequate incentives for enterprise, or plain inertia may be responsible for the failure of production to respond to changes in cost-price relationship resulting for the alteration or exchange rates. These structural factors are discussed below.

d. *Repercussions of devaluation on other countries.* Exchange rate adjustments as a means of dealing with worldwide equilibrium are limited by the fact that the demand for one country's exports may be elastic only under the assumption that its competitors maintain their exchange rates and export prices. Hence in order not to invite competitive depreciation, which in the case of an inelastic foreign demand would prove to be self-defeating, exchange rate adjustments should not be made on a unilateral and piecemeal basis. The practice of unilateral adjustments may also lead to the use of rates which discriminate as between currencies. Thus, it may be to the advantage of a country to reduce the value of its currency in terms of the currencies of certain countries, *e.g.,* the dollar area, while maintaining its rate *vis-à-vis* other countries. For example, a European country may want to encourage a diversion of its exports from other European countries with inflated currencies to the United States. This situation is undoubtedly responsible for the use of discriminatory rates by Italy and France in 1948.

3. *Discriminatory Arrangements*

When countries are unable to balance their international accounts on a multilateral basis, they may be able to do so on a discriminatory basis. Whether or not a country is able to achieve equilibrium through discrimination depends upon whether it can find an outlet for its exports which will enable it to meet its import requirements. If, for example, the only available source of certain raw materials and capital equipment which a country needs is the United States, bilateral deals with third countries will not secure these materials. Discriminatory arrangements may, however, reduce that country's dollar requirements for other commodities available elsewhere and provide a market for the exports to be traded against them. Where import and export controls are not employed, discrimination may be achieved by the use of discriminatory exchange rates, but similar commodities must be available in the areas from which imports are to be increased, *i.e.,* the elasticity of substitution must be fairly high.

Strictly bilateral arrangements, although better than going without needed imports, have well-known limitations. The larger the area of multilateral trading, the more efficient trade becomes. It may be desirable, therefore, for a group of countries to engage in multilateral trade among themselves while discriminating against other areas.[25] However, potential demand on the part of a group of countries joined together in a multilateral payments system for the exports of another currency area may still be greater than foreign exchange receipts from current transactions. Thus, although the new intra-European clearing arrangement[26] may help to reduce the dependence of the Economic Recovery Program countries for Western Hemisphere commodities by promoting a freer exchange of European commodities, these countries will still need outside assistance for meeting their deficits with other areas.

Do discriminatory arrangements provide a permanent solution to the problem of worldwide disequilibrium? Although an adequate answer to this question would require another article or perhaps a volume, it is my view that such devices should be considered as short-term expedients only. Bilateral or regional multilateral arrangements may meet an immediate need for the restoration of trade which has been hampered by a shortage of generally acceptable means of payment. Regional multilateral payments arrangements may also help to restore equilibrium by providing a large protected market for new industries, the rapid development of which is necessary in order to reduce the dependence of members of the region on other areas with which the region as a whole may be out of balance. But after the structural adjustments have been made and exchange rates established at appropriate levels, these industries should be able to stand on their own feet in competition with those of other regions. Regional multilateral arrangements should eventually be merged with a worldwide multilateral system, although it might be desirable to retain the regional payments structure so that temporary discrimination against the outside world could be instituted in periods of emergency.

4. *Structural Adjustments*

By structual adjustments we mean adjustments in the structure of production and patterns of consumption which are not brought about by one of the three types of measures discussed in the preceding para-

[25] I have discussed this subject in an article entitled "Regional Multilateral Payments Arrangements," *Quart. Jour. Econ.*, Vol. LXII, No. 4 (Aug., 1948), pp. 500-18.; See also Robert W. Bean, "European Multilateral Clearing," *Jour. Pol. Econ.*, Vol. LVI, No. 5 (Oct., 1948), pp. 403-15.

[26] For a discussion of the intra-European payments plan see *Second Report to Congress of the Economic Cooperation Administration*, 1949, pp. 11-15.

graphs. In some cases, the adjustments required for the restoration of equilibrium could be brought about by appropriate internal monetary and fiscal means, but for one reason or another governments may choose not to employ them. In other cases, restoration of equilibrium without severe disruption of the economy may not be possible except by direct or indirect action on the part of the economic authorities to alter the structure of the economy. In other words, internal financial measures, exchange rate adjustments or special trade and payments arrangements may not be sufficient or may not act quickly enough to restore an international balance.

In controlled economies, restoration of equilibrium may require the establishment of new industries, the expansion of old ones or an increase in agriculture output for home consumption or export. It may also mean the contraction or elimination of certain industries. On the consumption side, restoration of equilibrium may require the elimination of certain luxury items such as private automobiles, or a cheapening of housing accommodations to be made available to the public.

In relatively free economies, changes in the structure of production may be achieved by special encouragement to certain industries in the form of low interest loans, free technical assistance or tax concessions. Other industries may be discouraged by discriminatory taxation and other measures which do not require a direct control of industries by the government. Although the government may be able to discourage certain industries by indirect means, it may be impossible to expand other industries except by direct encouragement or promotion. There may be cases where the necessary risk capital is not forthcoming without direct government intervention or where the necessary capital can only be obtained from abroad. The fact that in recent years international loans have been made largely on an intergovernmental basis, has tended to increase governmental responsibility and control in borrowing countries.

The question arises as to why, in the case of relatively free economies, necessary structural changes for the restoration of equilibrium cannot be brought about by internal monetary and fiscal measures and appropriate changes in the exchange rate. The answer is that in some cases equilibrium could be restored without governmental action to affect structural changes but only at the cost of unemployment or drastically reduced living standards. The economic organism of a modern industrial nation simply does not have the flexibility and sensitivity to changes in the pricing mechanism attributed to it by classical international trade theory. The expansion of certain industries and the contraction in others which may be dictated by rapid changes in the balance-of-payments position of a country may not take place with

sufficient speed through the operation of competitive forces in free economies. It requires considerable time to attract private risk capital to new industries especially when adequate incentives for venture capital are lacking. Price and wage rigidities interfere with the transfer of resources from established industries. Moreover, new export industries and industries supplying home needs formerly met by imports often require large amounts of foreign equipment so that the initial result of the structural adjustment may be an increased demand for imports. It may be necessary, therefore, for the government to obtain the necessary financing from abroad. If an attempt were made to force the required structural adjustments solely by means of deflationary financial measures, the result might be immediate unemployment, the disruption of industry and perhaps a permanent lowering of living standards.

The postwar situation in Europe is an example of the need for far-reaching structural adjustments for the restoration of balance-of-payments equilibrium which could not be brought about by internal financial measures alone except at the cost of reducing the living standards of a large part of the population to starvation levels. According to the report of the Economic Commission for Europe,[27] if Europe is to achieve equilibrium in her balance of payments and to restore prewar standards of living it will be necessary to close a balance-of-payments gap of $3.3 billion in terms of 1947 prices. This gap remains in spite of the fact that by the end of 1948 prewar industrial production in most Western European countries had already been exceeded. This deterioration in Europe's balance of payments was in considerable measure a result of the reduction in net investment income and changes in other invisible items. In the case of the United Kingdom, whose total production and volume of exports exceeds prewar levels by a substantial margin, practically all of her balance-of-payments difficulties can be traced to the deterioration of the invisible account.

The expansion in European heavy industry and the other changes in the pattern of production which are necessary for Europe to achieve equilibrium by the end of the four-year recovery period not only require large amounts of foreign capital but also a considerable degree of national and international planning and cooperation. It is unlikely that the steps necessary for the restoration of equilibrium at high levels of production can be brought about solely by exchange-rate adjustments and fiscal and monetary measures within the space of a few years. But, to be successful, structural adjustments must be accompanied by appropriate financial measures and exchange-rate adjustments. They may also require trade and payments arrangements with

[27] "*A Survey of the Economic Situation and Prospects of Europe*," pp. 76-77.

other countries. For example, in order for the Economic Recovery Program countries to balance their accounts with the Western Hemisphere, they may need to plan their industries in a complementary fashion and promote intra-European trade by a regional multilateral payments arrangement. Such arrangements will for a time at least involve discrimination against the United States. Eventually, however, after the necessary structural adjustments have taken place, these countries may be able to return to multilateral trade on a worldwide basis.

The United States and World Disequilibrium

Before concluding, it may be appropriate to inquire as to the need for structural adjustments on the part of countries with chronic surpluses, *e.g.*, the United States. If the elasticity of demand for United States imports proves in fact to be less than unity, changes in the relative value of the dollar, and reductions in United States tariffs, may not bring about a substantial increase in United States imports. It might be argued that the entire burden of structural adjustments to achieve equilibrium rests with the rest of the world which is experiencing a dollar shortage. On the other hand, many Europeans and some Americans maintain that if we want to have a world in which nondiscriminatory trade and convertible currencies are possible, the problem of the dollar shortage is in part, at least, an American problem.[28] Any attempt to determine whether or not a dollar shortage will continue for an indefinite period in the future would involve the making of long-range estimates of an exceedingly hazardous character. But without predicting our long-run balance-of-payments position we might suggest possible ways in which a reduction in our actual or potential balance-of-payments surplus might be achieved.

If economic and political conditions in the world generally were favorable, the most desirable way of dealing with the dollar problem would be to export large amounts of capital each year, preferably on private account. Special encouragement could be given to such investment by government guarantee of the transferablity of earnings into dollars or by other forms of insurance and guarantees. Although foreign investment would increase United States receipts on invisible account, several decades of large outpourings of American capital and technical knowledge would most certainly alter our relative position as a supplier of the world's industrial commodities. Moreover, with the exhaustion of our natural resources, our imports of raw materials will tend to increase.

In the absence of an environment favorable to large-scale United

[28] See "Dollars—An American Problem" and "Dollar Shortage Forever," *The Economist*, July 3, 1948 and June 26, 1948 respectively.

States foreign investment, the government might seek to reduce our export surplus by reducing the amount of agricultural products available for export through our agricultural support price and acreage allotment program. We might also place export controls on strategic raw materials or commodities produced from strategic raw materials as a conservation measure. The difficulty with these measures to curtail exports, however, is that we would be doing the world a distinct disservice if alternative sources of supply of these commodities did not exist. Preventing other countries from satisfying their needs for United States commodities is not a realistic solution to the dollar problem.

Measures designed to increase United States imports would be preferable from the standpoint of the world economy. But here we run into the difficulty that the bulk of United States imports takes the form of foodstuffs and crude materials the demand for which is quite inelastic. A large-scale stockpiling program and a conservation program designed to use imported raw materials while conserving our own reserves of mineral wealth would be helpful but probably insufficient as a solution to the problem. The import demand for a large number of manufactured items is undoubtedly quite elastic and in some cases the total market is very large. Foreign sellers might undertake to capture a large segment of the American market for textiles, china, cutlery, and other commodities in the production of which the United States has little or no comparative advantage. But the barriers to entry into the American market on a large scale are not simply matters of prices and tariffs. The development of national markets requires years of nation-wide advertising and the establishment of large marketing organizations. It is difficult for foreign countries producing on a relatively small scale to meet the requirements for nation-wide marketing in this country. Government aid in promoting the sale of foreign products on a large scale, would very likely meet with enormous opposition on the part of the American business community. In fact, substantial inroads by foreign competitors which would require a serious retrenchment on the part of any important American industry is almost certain to be met with a demand for the restriction of imports.

We may conclude that in the absence of large American foreign investment or of a commercial policy which will permit large imports of manufactured goods in competition with American producers, the major part of the burden of correcting world disequilibrium must be borne by the rest of the world. General discrimination against dollar imports is probably inevitable until industrial capacity in the rest of the world is considerably expanded and adequate alternative sources of agricultural products for which the rest of the world is now dependent on the United States are developed.

PRICES, MONEY AND THE DISTRIBUTION OF GOODS IN POSTWAR GERMANY

By HORST MENDERSHAUSEN*

In the summer of 1948, the economy of Western Germany underwent a radical change. The change was brought about by a variety of factors. The monetary reform of the 20th of June and the subsequent abandonment of a large part of price and rationing controls re-established money as an effective instrument of purchasing power, and markets as legal and effective devices of allocation. An abnormally good harvest and increased external aid led to a significant rise of food rations[1] and improved supplies of industrial raw materials. But, above all, there came into existence an economy with legal and functioning markets.[2]

The effect of the monetary and economic measures was impressive. If the Rentenmark of 1923 performed a miracle, the Deutsche Mark of 1948 may be said to have wrought a revolution. Beyond the immediate change in the availability of goods, a significant change in economic relations took place. It was as if money and markets had been invented afresh as reliable media of the division of labor.

During the preceding years there had occurred a genuine regression of economic civilization. Foreign trade had practically ceased and come to be replaced largely by the intake of foreign relief and the outgo of foreign levies. Internal trade had become a most ineffectual system of redistribution by government agencies, overlaid with forms of primeval long-distance trade and local barter, both illegal. Far from

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[1] In the bizonal area, the food ration of the normal adult consumer was raised from 1,575 calories per day in June to 1,980 calories in July. In August, it dropped to 1,830 calories; but it remained above 1,800 calories in the later months of 1948. (OMGUS, *Monthly Report of the Military Governor,* Statistical Annex, XVII, August, 1948, p. 19, and later issues.)

[2] The term "economy with markets" is used here to denote the presence of markets among the legal institutions of the economy. It does not carry any connotation regarding the scope and place of the markets in the economy. "Market economy" (*i.e.,* an economy dominated by markets) and "economy without markets" may be considered speculative extremes. They are theoretical limits to the many combinations of market and non-market patterns of economic life that occupy the full range of economic history.

having been a "market economy" during the 1930's and the war years, the German economy in terms of its legal institutions came close to being an "economy without markets." This regression was as extraordinary to the economic observer as it was painful and bewildering to the people involved in it.

The severe effects of Germany's repressed or stagnant inflation on incentives and production had been widely realized. The index of industrial production in the bizonal area did not reach 50 per cent of 1936 before March, 1948[3]—it was at 51 per cent in the month of currency reform, June, 1948—while the published indexes of other countries, except Japan, reached levels of at least 66 per cent of prewar, generally better than 75 per cent, in 1947.[4] But it is far from certain that an earlier imposition of currency reform and an earlier decontrol of prices and commodity flows alone would have caused an earlier and better recovery. In view of the protracted disorganization of government, social life, and foreign supplies, it may be said that economic recovery was hardly within reach before 1948, and that a policy of rigidly suppressed inflation was not more unsatisfactory than any other policy available during that time. Nor would it be proper to limit one's view to the effects of stagnant inflation on production. The listlessness of the economy was accompanied by a dulling of organized social conflict. Market, government, and social conflict had simultaneously and temporarily fallen into disorganization. When decisions were taken to reorganize the economy and the government, the stage was set for progress and for more acute social conflicts.

The economic experience of Germany in the three years since V-E Day contains interesting lessons in the reaction of a modern Western nation to severe economic disorganization. Features of general significance are of course inextricably interwoven with the peculiar facts of post-Hitler Germany. It would be very difficult to separate these components of the situation.

Tenacity of Price Control

Price control and rationing survived the collapse of the Hitler Reich. In November, 1945, the four-power Allied Control Authority resolved to continue the German price laws and regulations and the local and regional agencies for price control, thus reaffirming earlier actions taken by the various zone commanders. On February 7, 1946, the Coordinating Committee of ACA agreed on a statement of price principles applicable in the four zones of occupied Germany and Berlin.

[3] Two years earlier in June, 1946, it was 34 per cent of 1936. Revised index published in OMGUS, *Monthly Report of the Military Governor,* August, 1948, p. 98.

[4] *Monthly Bulletin of Statistics,* Statistical Office of the United Nations, August, 1948.

This was to remain the basic price policy document for more than two years.

This statement provided for the rigid maintenance of the price stop: "As a rule, on the majority of commodities, prices are to be maintained, for the time being, at the level before occupation. Price increases over the level prevailing on the 9th of May 1945 shall only be permitted as an exception. . . ." The need for such exceptions was to be proven by actual losses, after exhaustion of all methods to eliminate cost increases. The possibilities of price relief were further limited by the stipulation that only "average direct cost of production of the aggregate of products of the firm" should be covered, that not more than "the smallest margin for overhead and profits" should be allowed, and by the consideration that "the cumulative effect of all price increases permitted . . . on the cost of living shall not be so great as to necessitate any adjustment in the present general level of wages."

While these instructions were to guide the German price formation offices in the various zones, the ACA reserved to itself the right to control the prices of the most important basic commodities of industry and agriculture. ACA exercised this function in a most cumbersome and rigid manner.

Within the various occupation zones, the implementation of the price stop policy showed much similarity in form but variation in substance. The Russians used the price squeeze as a means of making private business unprofitable. They exempted from German price law the Soviet corporations that they set up in their zone. In the American zone, price policy was dominated by a "hold-the-line" spirit in the absence of any strong business pressure. The French followed an equally rigid approach while the British vacillated between a Treasury approach of curing inflationary pressure by price increases and a political preference for price-wage stability, the result being a somewhat laxer price stop.

With the formation of bipartite Anglo-American economic policy bodies in late 1946, the principle of the price stop was reaffirmed. In a statement on price, wage, and subsidy policy of November 2, 1946, the Bipartite Board declared that "full expression in prices should not be given to the many temporary and abnormal elements in the present cost structure, especially in the basic commodities, and a limited program of temporary subsidies and stringent control generally is recommended for this purpose." The German price authorities, at the bottom of the hierarchy, reflected the combined influence of Allied policy and German popular opinion. Applications for price increases usually faced long delay and much red tape.

The "price stop with exceptions" was maintained in the face of a

tremendous imbalance of spendable money and available goods. In 1947, currency in circulation in the four zones of Germany and Berlin was estimated at about 10 times the amount that circulated in the Reich in 1936—when Hitler imposed the price stop—total currency and deposits at five times the amount of 1936, while the real national income was put at roughly one-half of that of the Reich of 1936.

Legal prices did increase. The cost-of-living index for the U.S. zone gives a picture of the development of certain legal consumer prices. In October, 1945 this index was only 12 per cent above prewar, but in May, 1948 it had risen to 31 per cent above prewar. While the

TABLE I.—COST OF LIVING INDEX FOR BAVARIA, HESSE, AND WUERTTEMBERG-BADEN[a]
(1938=100)

Date	Total Index	Food	Stimulants	Rent	Heat and Light	Apparel Total	New	Miscellaneous
October 1945	112	106	126	100	116	142	151	117
October 1946	125	114	194	100	119	149	161	145
October 1947	126	122	193	100	121	159	174	138
May 1948	131	132	193	100	123	165	183	140

[a] Computed for worker's family of five, bombed out or evacuated. OMGUS, *Report of the Military Governor*, Statistical Annex XVII, July 1948, p. 49.

weighting and the economic significance of the index are subject to strong reservations, it correctly indicates a relatively small rise during the pre-reform period, very small in view of the exceptional conditions of the country.

The development of the cost-of-living index corresponds roughly to that of average hourly earnings in the industries of the U.S. zone, which were subject to an extension of the pre-occupation wage stop. In March, 1948 average hourly earnings were 131 per cent of 1938. Owing to the considerable curtailment of work hours, however, average weekly gross earnings were only 111 per cent of 1938.[5]

The rise of legal or quasi-legal commodity prices was generally greater than that of the cost-of-living index. In 1947, experts of the British and American occupation authorities prepared estimates of wholesale prices approved or "tolerated" by the German price offices in the bizonal area. The study indicated approximate price developments as shown in Table II.

A new index of basic commodity prices in the bizonal area, established in 1948, showed the prices of basic foodstuffs in mid-June 1948

[5] OMGUS, *Report of the Military Governor*, Statistical Annex XVII, July, 1948, p. 10.

as 124 per cent of 1938, those of basic industrial materials, as 155 per cent of 1938.[6]

The group of manufactured consumers' goods showed the greatest rise, a fact that is also borne out by the lead of new wearing apparel and household furnishings in the cost-of-living index. While manufactured consumers' goods, roughly speaking, doubled in price, agricultural and industrial raw material prices increased by 50 per cent or less.

The resulting change in the price structure, that is, the opening of the price scissors between primary and final producers, was largely due to price control. In the absence of price control, the acute postwar shortage of primary agricultural and industrial goods would probably

TABLE II.—ESTIMATED WHOLESALE PRICE INDEXES IN THE BIZONAL AREA IN MAY 1947, AND COMPARABLE U. S. INDEXES (1938=100)

Products	Bizonal Area	United States[a]
Agricultural products	120 to 125	265
Industrial raw materials and semi-finished products	135 to 145	230
Finished manufactures	190 to 220	177
Producers goods	150 to 180	—
Consumers goods	215 to 240	—

[a] Based on the Bureau of Labor Statistics index of wholesale prices for farm products, raw materials and manufactured products.

have put their prices in the lead. That, at least, was the case in the United States. The disruption of the national market in Germany, the lack of imported raw materials, the destruction of the Ruhr industries and the inaccessibility of Silesian coal and Eastern and Central Germany foodstuffs, all would probably have accentuated this tendency.

Price control in Germany produced the inverse tendency, chiefly for two reasons. Price increases of the basic commodities could only be made by the Allied Control Authority itself. That meant in the first place a very laborious process of fact finding and transmitting and finally a sort of four-power conference on the case in hand. The quadripartite negotiations about British proposals to raise the prices of coal and steel showed all the features of futility that have disgraced four-power conferences in recent years. Added to the prevailing price-stop preference among the representatives of at least three of the four powers, this condition prevented anything like a sufficient price adjustment of most basic commodities. It blocked any action on coal and steel.

[6] Statistical Office of the Bizonal Area: *Statistische Monatszahlen*, November, 1948, 38. See also Table V below.

Costs of production had of course risen greatly through declining labor productivity (in Ruhr coal mining, by 40 per cent), destruction and wear of plant and equipment, shutting off of normal sources of supply (for instance of Swedish ore to the iron industry and of fertilizer to agriculture) and other factors. The stability of basic industrial prices entailed credits *à fonds perdu* to the steel industry and heavy subsidies to coal mining.

The producers of finished goods were better off. They had to deal only with German price controllers whose understaffed offices were expected to spread their efforts over the whole wide field of economic activity, down to the fees for dancing lessons and the admission charges for flea circuses. Products were diversified and less easily controllable. Producers could change their products and come up with something "new" that required fresh price fixing on the basis of actual cost. This was a faster road to price relief than applications for price increases of traditional products. Finally, the producers and traders of these goods could exploit the division and the economic warfare between the zones, sell Soviet zone fever thermometers in Hamburg (British zone) at prices allegedly approved by Soviet zone authorities, and Solingen cutlery in Wuerttemberg (U.S. zone) at prices apparently legal in the British zone.

Price control during the first three years of occupation was surprisingly effective. There was a great deal of evasion; but the bulk of the goods changed hands at legal or nearly legal prices. Legal prices were charged for rationed foodstuffs—which made up more than three-quarters of the "normal" consumers' intake of food—and for the few manufactured consumers' goods that could be obtained on rations or purchase permits; for allocated raw materials and equipment and, as will be seen below, even for producers' goods obtained outside the allocation system. Legal prices governed the sale of all imported agricultural products as well as the bulk of the deliveries of domestic grain and other products. Legal prices were paid for export goods. In addition, legal wages prevailed throughout the economy. Even the fees of artisans and professions remained relatively stable, although to a lesser degree than wages and although extra services usually had to be rendered in return.

It is of course true that the legal prices and rates did not represent the essence of the bargain in many of these transactions. Much more important than the return in money was the preservation of good will or at least tolerance on the part of government authorities, customers or employers, suppliers or workers in a social situation that was full of dangers to liberty and property. Compliance with price control was a form of insurance premium, and there were ways for many businesses

and individuals to make the premium relatively inexpensive.

Most of the violations discovered by the price supervision offices were relatively minor. During 1947, the price authorities of the bizonal area confiscated excess proceeds of 32 million marks in the prosecution of 200,000 cases of price violations.[7] Price increase applications were submitted to the price formation offices in a regular fashion. Usually more than half of the applications submitted in the U.S. zone got some measure of price relief; more than three-quarters, in the British zone.

Thus, in the midst of currency, supply and demand conditions that would certainly have produced price inflation in a market economy, there remained a fairly high degree of price discipline and stability under price control. But the economic incongruity of the situation produced changes in the methods of distribution, a limited black market and a widespread system of reciprocal exchanges of goods and services. These changes took the substance out of the price system and tended to make it a hollow shell.

Limitations of the Black Market

The black market was one of the balance wheels of postwar Germany's disequilibrium system.[8] Its existence could hardly surprise; but its limitation and its stability did. There is no evidence of its spreading during the three years' period, nor is there evidence of general cumulative price movements. The German black market before currency reform may be empirically defined as the purchases and sales for money (or for such money substitutes as cigarettes or coffee) at prices many times as high as the legal level. It comprised a certain section of economic transactions, probably less than 10 per cent of the total by volume. It had its special agents and links to the remaining bulk of economic exchanges.

It is impossible to measure the quantitative importance of black market transactions with any degree of exactitude; but "informed guesses" of Military Government officials allowed to them not more than 5 per cent of imported grains, industrial materials or Army supplies; not more than 10 per cent of German industrial and agricultural production;[9] up to 20 per cent of the imported goods coming

[7] OMGUS, *Report of the Military Governor,* Statistical Annex XI, January, 1948, p. 71. Excess proceeds were confiscated in only 30,000 of the 200,000 cases.

[8] I borrow this term from J. K. Galbraith's article "The Disequilibrium System," *Am. Econ. Rev.,* Vol. XXXVII, No. 3 (June, 1947), pp. 287-302. Galbraith described that system as a combination of comprehensive controls over prices and the use of resources, and a substantial excess of money demand over the supply of goods and services.

[9] One of the outstanding exceptions that has been reported is the disappearance from legal channels of two-thirds of all pigs slaughtered in Bavaria during 1947. OMGUS, *Information Bulletin,* April 20, 1948, p. 12.

into the hands of Allied personnel as their private property (after private importation of cigarettes had been banned); probably 90 per cent of the turnover of existing luxury goods (jewelry, cameras, china, rugs, furniture).[10]

Black market operations consisted primarily of transactions in finished products. They usually involved traders and final consumers, to a lesser extent original producers. The products came partly out of German production (typically bread, potatoes, fats, meat, soap, textiles), partly from Allied sources (typically gasoline, tobacco goods, chocolate, certain foods), partly out of personal and household possessions of the German population. They were handled by black market traders, recruited from the ranks of the displaced persons and Germany's unstable and dislocated population.

The contacts between this class and the rest of the population were manifold. People who knew where to buy or sell "black" goods could be found in nearly every house, especially in the larger cities. Every family was involved, at more or less frequent intervals, in the black market sale of some possessions and the purchase of some "black" foods, stimulants, clothing, etc. Characteristically, the excess of expenditures over income in a sample of 81 Bavarian workers' and white collar households (September, 1947), amounting to about one-third of income, was almost entirely balanced by money receipts from the sale of personal property.

Likewise, all business enterprises would at one time or another make a black market purchase or sale to obtain critical materials or parts and to cover costs and tax bills that could not be met out of legal income. But the great majority of households and businesses considered their involvement in black market transactions as shameful, and the agents of the black market as immoral and asocial individuals.

The prices of the black market varied from place to place and fluctuated in time. Owing to bad transportation and communications and to its illegality it was of course an imperfect market, in which some transactions and some places, especially Berlin, would show much higher prices than others. Information collected by the price supervision offices and the police indicated that in May, 1947 black market prices in the main cities of the U.S. zone were about 100 times or more the legal prices for sugar, butter, coffee, saccharine, flour, ladies' stockings, soap, flints; about 75 times the legal prices of oleomargarine, eggs, liquor; about 50 times the legal prices of potatoes,

[10] OMGUS, *Economic Policies, Programs and Requirements in Occupied Germany; Answers to questions submitted by members of the Select Committee on Foreign Aid, House of Representatives, September, 1947*, p. 149 ff.

beef, Leica cameras; about 25 times the legal prices of coal, suits and dresses, electric bulbs, automobile tires and gasoline; and about 10 times the legal prices of typewriters, and electric wire. The most important black market foodstuffs sold at prices in the range of 50 to 150 times the legal level. As a rule, industrial goods had a smaller black market agio, with the notable exception of ladies' stockings, soap and flints. The average of black market prices may be estimated at 50 to 75 times the legal prices.

At that price level, even a small turnover of goods would absorb a large volume of purchasing power. Assuming that only 8 per cent of the total volume of transactions were carried out at that level, while the remaining 92 per cent were carried out at legal prices, the volume of money engaged in the black market transactions would be about five times as great as that engaged in transactions at legal prices. Allowance for the use of money substitutes might lower this figure somewhat; but the order of magnitude would probably remain similar.

In this fashion, the black market absorbed a considerable part of the excess supply of money in postwar Germany. The remainder of the excess was neutralized by the considerable decline in the velocity of money circulation, compared with prewar, that resulted from a variety of factors: the decline of financial transactions, the regression to cash payment and official sterilization policies. Moreover, the excess did not increase; it possibly even declined with time. The slow advance of production and of legal prices probably exceeded any net infusion of money that may have come from the Soviet zone. The fiscal policies followed in the bizonal area whittled away some of the excess purchasing power after 1945. There factors explain in large part the stability or slightly downward tendency in the black market price level during the three years' period.

The black market was limited to commodity and property transactions. Black market wages commensurate with black market prices were practically unknown. Employees working in establishments with obvious black market incomes as a rule preferred compensation in extra goods to extra money, and the same rule usually applied to irregular employment and odd jobs.

Bilateral Exchange

While Germany's postwar inflation remained stagnant in a setting of rigid price control and a stable black market, the distribution of goods and services underwent an important institutional change. Bilateral exchange assumed major proportions. In a large sector of the economy, goods and services could not be obtained for money alone, nor even for money plus ration coupons or allocation certificates. They could

only be obtained on the condition of delivery of other goods and services.

To most people, money did not lose value by way of depreciation but it lost significance through an increasing limitation of its usefulness. Food rations could be bought at legal prices, but it was the ration card, not the money, that controlled the access to the scanty and irregular distribution of foodstuffs. The amount of money that could actually be spent on the food rations was not hard to find. Pegged wages and an occasional black market sale would put that amount into everybody's hands, even without the benefit of former savings. This held true *a fortiori* for other consumer goods. The quantities of clothing and metal goods available after allotments to refugees, and in the latter part of the period, to miners and other workers' groups, were so small that the opportunities to obtain them for money and permits were negligible. The black market, finally, was narrow and an unreliable source of supply for the commodities of daily living, entirely insufficient to obtain the ingredients of production. A mark might be worth half a cent or half a dollar in relative purchasing power; but in either case there was not much of a point in relying on that purchasing power and in laboring to get hold of the mark.

For reliable supplies, businesses, farmers and workers increasingly turned to bilateral exchange via "compensation trade," "distributions to workers," and regular barter. These practices were illegal under the sweeping prohibitions of nazi wartime legislation, in particular the War Economy Ordinance, which were kept in force under the occupation. But the German and occupation authorities found these breaches of economic controls almost irrepressible. In September, 1947 U.S. Military Government experts believed that from one-third to one-half of all business transactions in the bizonal area proceeded in the form of "compensation trade."[11] "At least 50 per cent," was the guess of German government officials in the Ruhr area. This was an all-pervading feature of the economy.

Apart from the limited usefulness of money, two factors helped to establish bilateralism on a broad scale. First, the occupation authorities led the way. In the early days of occupation, local military commanders obtained essential goods for their district by loading up some trucks with the district's products and taking them to the outside suppliers for straight barter. Throughout the period, the occupation authorities offered a ration-free noon-day meal at the legal price to all of their German employees, from top-level expert to street cleaner. This arrangement was the major and indispensable material attraction of

[11] OMGUS, *Economic Policies, Programs and Requirements in Occupied Germany.*

service in occupation establishments. Likewise, the occupation authorities introduced "incentives in kind" to boost the economic activities judged most important: coal mining and export production. They thereby acknowledged that in order to buy something you have to sell something to the seller.

Second, in the eyes of most people bilateral exchange was far less immoral than black-marketing. It was usually considered an unfortunate necessity. "How can I keep my workers without putting tires on their bicycles? They will take them, anyway," said the rubber manufacturer. "Everybody knows that to get cement you must offer coal," said the city fathers of Stuttgart, and they bought liquor brewed in the surrounding countryside, shipped it to the French zone in exchange for cigarettes, shipped the cigarettes to a Ruhr mine and swapped them for coal, brought the coal back to a cement plant in Wuerttemberg, and thus got the cement for reconstruction work. The monitored correspondence between two businessmen showed the negotiations preceding certain compensation deals. Their illegality was understood. But when one of the parties demanded an unusually large counter-shipment in return for his products, the second party indignantly charged him with "illegal black-marketing."

Money did enter into "compensation" trade, both as an accounting standard and as a means of payment. Typically, the equivalent quantities of goods in these reciprocal transactions were computed with the help of legal or near-legal prices, the common formula being "peace-time value for peace-time value." From the point of view of price control, many of these transactions were inoffensive. But there also were characteristic changes in equivalencies that reflected the incorrectness of the frozen price structure. For instance, the going rate for the widespread bilateral exchange of cement for coal was one ton of coal for one ton of cement. At legal prices, one ton of coal was the equivalent of one-half ton of cement. The balance due the cement producer at legal prices would usually be settled in money. That was for bookkeeping purposes chiefly.

"Compensation trade" was the typical form of bilateral exchange among industrial producers and wholesale traders. A considerable part of their effort was spent on locating partners to a deal and in arranging for the expeditions needed to carry goods from one place to another safely. The system was costly and cumbersome, and most businessmen disliked it intensely. But it provided a market mechanism, even to the point of developing some clandestine "bourses," and it helped avoid a complete breakdown of industrial activity under the weight of scarcities and trade prohibitions. It is noteworthy that in the more elaborately planned and policed Soviet zone, compensation trade was

not only rampant but even formalized occasionally. A big chemical plant, appropriated by a Soviet corporation, was known to have a detailed list showing the exchange equivalencies of a hundredweight of fertilizer in terms of coal, flour, potatoes and other goods, for the benefit of its customers.

Bilateralism in the employer-employee relationship took the form of factory meals more substantial than the turned-in ration coupons of the workers warranted, the sale of consumers' goods to the workers at legal prices but without permits, and the granting of facilities and materials to "work shops" in the plant, where the workers could make some articles for their own use on company time or after hours. Naturally favored were the employers producing goods of general usefulness to consumers. But where the production was not suitable, or could not be made so by the addition of special lines, goods for distribution to workers were obtained from other producers through "compensation trade," or the workers were given factory products that could be taken out to the peasants and bartered for food. In this way, even a steel mill could satisfy its workers by giving them Thomas fertilizer and steel bands for the wheels of peasant carts.

The pre-commercial system of *Deputate* (payment in kind) that had lived on in German coal mining and on large agricultural estates thus spread throughout the entire industrial economy, chiefly in the form of the provision of facilities to buy at legal prices what was otherwise unobtainable. The 20th century institution of the works' councils, representatives elected by all the workers of a plant, was frequently made the vehicle of the *Deputat* system. The works councils allotted the goods to workers according to some standard of need and they frequently also participated in the procurement of food for the works kitchens.

Finally, there was the direct barter between city dwellers and peasants. The city people hiked to the villages with an assortment of hardware, textiles, tobacco and personal possessions and bartered them for food. In this trading, money played almost no role at all. City people also worked as farm helpers for the food and whatever living quarters were available in the crowded villages.

The bilateral exchange economy was the chief means of survival for businesses and individuals in Germany before currency reform. It developed in the domestic economy to cope with the same basic problem that bilateralism seeks to meet on an international plane, *i.e.*, unreliability of a complex division of labor. Its German variety represents the extreme stage of a development that could be observed in milder forms in the war and postwar economies of Great Britain and the United States. Where neither trading for money nor redistribution

of goods by political authority, alone or in combination, can ensure a reliable division of labor, bilateral exchange seems to be the safest line of economic retreat.

Monetary Reform and Companion Measures

The monetary reform for the Western Occupation zones, introducing the Deutsche Mark[12] as the new legal currency, was ordered by the three military governments on June 20, 1948. Currency holdings and deposits of D-Marks came into existence by (1) the allotment of certain amounts to consumers, businesses, public authorities and military governments, and (2) the conversion of the old marks.[13] Credit creation soon came to add a third major source of monetary means, and the influx of Western Berlin mark, a fourth and minor source. (See Table III).

The Western zones went into the reform with a money supply estimated at RM 135 billion.[14] On the 7th of September, when the new central bank for the three zones, the Bank Deutscher Laender, gave its first accounting, the economy was equipped with about DM 12 billion on currency and free bank deposits, excluding inter-bank deposits, of which little more than DM 9 billion were created by the reform measures, about DM 3 billion by the bank system through credit creation.[15] Not counting the latter, the money supply was reduced by more than 93 per cent as a result of the reform. These monetary means were to effect the circulation of goods and services at existing or newly forming prices.

It is not intended to give the legal details and a play-by-play account of the currency reform in this article. Regarding its broad economic effects, however, it should be pointed out that the original reduction of money was in effect somewhat more severe than the quoted figures indicate. About DM 1.1 million of the DM 12.3 billion accounted for were nominal accounts and not at the disposal of the economy in September, 1948. Excluding furthermore savings accounts of DM .3 billion, the effective monetary means of the economy were DM 10.9

[12] The basic laws (for the U. S. zone, law No. 61, 62, etc.) have been released by the U. S. Department of the Army, Public Information Division.

[13] Reichsmark, occupation mark, etc. This division simplifies the more complicated measures that were taken. Technically, the allotments were made in the form of 1 to 1 conversions of old mark into new mark. In later conversions of additional old marks, the customers were debited with nine times the originally allotted amounts in old mark.

[14] OMGUS, *The European Recovery Program,* Joint Report of the U.S. and U.K. Military Governors, September 31, 1948. Little more than RM 100 billion were converted. The remainder was not presented for conversion. The currency reform law provided for the investigation of large old mark accounts.

[15] *Mitteilungen der Bank Deutscher Laender,* No. 13, Frankfurt, October 22, 1948, and direct communications from the same source.

billion, or about 22 per cent of the national income. By comparison, in 1938, the monetary means of the German economy were about 34 per cent of the national income.[16] The shortage of monetary means, however, was offset to some unknown extent by an upward spurt of the velocity of money circulation, reflecting the great propensity to buy in the unfolding markets; and it was rapidly alleviated by credit creation on the part of the banks.

Credit creation on the basis of commercial paper or personal confidence proceeded at a fairly rapid pace till November, 1948, when

TABLE III.—VOLUME OF MONEY IN WESTERN GERMANY, DECEMBER 31, 1948*

		DM billion
a. *By Type*		
D-Mark notes in circulation		6.3
Deposits (excluding inter-bank deposits) with the central banks of the Trizone and the various *Laender:*		11.4
Occupation authorities	.45	
German public authorities	.89	
Others	.22	
Total	1.6	
With other banks	9.8	
Total		17.7
b. *By Origin*		
Allotments:		6.8
to Occupation authorities	.77	
to German public authorities	2.38	
to businesses, including state railroad and postal system	.76	
to consumers	2.90	
Conversion of Reichsmark		about 5.9
Credit creation		about 4.8
Influx of Berlin B-mark		about .2
Total		17.7

* Source: Bank Deutscher Laender.

measures were taken to check it. The composition of the volume of money by type and by origin at the end of the year 1948 is shown in Table III.

Monetary reform was accompanied by several measures in the field of taxation (the "little tax reform"). The occupation authorities reduced the very high income and property taxes in effect since 1946 by lowering rates and raising exemptions. The corporate income tax was

[16] Money: RM 29.1 billion, national income: RM 85 billion. If savings deposits are included in both years, monetary means amounted to 66 per cent of national income in 1938, 22.5 per cent in September, 1948.

made less progressive. On the other hand, a new high excise tax was imposed on coffee, and local taxes were raised considerably. Contrary to previous plans, however, no action was taken to settle the vast and thorny issue of the "equalization of war and postwar burdens." The occupation powers assigned this task to the German authorities, and the latter have not succeeded so far in finding a solution acceptable to Allied policy makers.

An important companion measure was the adoption of a uniform link between the D-Mark and the dollar, the \$.30 conversion rate. During the year following currency reform this rate gradually replaced the many different "conversion factors" that previously had linked German to foreign prices in export and import transactions.

Fiscal and Economic Policy Pattern since Reform

The development of the Western German economy after monetary reform may be divided into several phases: (1) a brief release phase from the perverted institutions of the war and defeat economy, during which dishoarding dominated the scene; (2) an inflationary recovery phase during which the economy under slack controls advanced toward better performance and produced inflationary tensions. At the time of writing (March, 1949), the German economy seems to have entered a slight recession that may lead to the end of the decontrol period.

A discussion of the price and market developments during the first six months after currency reform presupposes some comment on the shape of fiscal and economic policy pursued by the Allied occupation authorities and the tentative German authorities, whose complicated interaction governed Western Germany during that time.

The German credit system was reactivated by the military governments in a rather quaint form. The central bank system was made irresponsible to political authority, in particular to the central authority that is slowly emerging from the bizonal institutions. In the name of "nonpolitical" finance, the Bank Deutscher Laender was put under the control of provincial political, banking and business interests, and credit policy was placed outside the reach of government. Reflecting an extreme distrust of the economic sensibility of public authority and an inclination to see in government the only conceivable source of monetary maladjustment, the occupation authorities outlawed "fiscal sin": "Expenditures of public authorities must be covered by current income. The procurement of funds by means of credit shall be lawful only in anticipation of future revenues. Military Government reserves to itself the right to intervene in budgetary matters if the maintenance of this principle is imperilled." (Article 28 of the Military Governments'

Conversion Law, promulgated as Law No. 63 in the U.S. Zone in June 1948.)

Put against the background of Western economic experience during the last 20 years, this rigid approach to fiscal policy appears like the ghost that Keynes laid. Its return to Germany has not yet had a chance to produce major social-economic disturbance; but it has not failed to leave characteristic marks on the recovery process of the country since currency reform.

Banking control of the credit volume proved by no means a safeguard against inflation and misdirection of resources. During the first six months of the new system, the commercial banks produced a sufficient amount of short-term credit to sustain a considerable upward movement of commodity prices (see below). Private businesses made extensive use of short-term credits for productive and unproductive purposes, frequently tying up the funds for long periods of time; and whatever power the banks had to influence the use of credit was offset by the wave of cash income that accompanied the liquidation of hoards. In November, 1948, the central bank felt compelled to restrict credit. It chose the means of raising reserve requirements by 50 per cent and freezing the aggregate amount of credit outstanding. The rediscount rate was left at 5 per cent.

The subsequent deflationary pressure was exercised with a similar lack of economic discrimination. What discrimination can be discovered was in favor of those who were indebted to the banks and against new customers or projects. The experience indicated the familiar difficulties of shaping and stabilizing the economic process by relying chiefly on banking measures of one kind or another. These difficulties were increased by the lack of balance between the regional and industrial components of the German economy on the one hand, and on the other hand by the extensive use of cash in business transactions that were meant to escape taxation under existing or expected laws (equalization of war burdens).

Long-term development credit was neglected. The commercial banks concentrated on short-term business. Thus, the weight of credit scarcity fell heavily on new enterprise, in particular such enterprise as could not be financed out of the sale of hoarded goods. It also fell on housing construction, where scarce and expensive credit delayed the removal of one of the narrowest bottlenecks in the German economy, the immobility of labor caused by the lack of housing. A public Reconstruction Loan Corporation was established in October, 1948 to finance long-term projects; but the search for sufficient funds proved very difficult, partly for expected reasons (high spending in all quarters), partly for unexpected reasons (the lack of reserves in the import

counterpart fund). The Corporation remained inactive until April 1949. At that time, a credit program was adopted permitting the application of the Military Government's import counterpart fund to investments in electric power and mining development. No funds were provided for housing.

By barring the German governments from the levers of central bank credit, the occupation authorities severely limited their power to contribute to long-term financing and to the relief of continual (social security) and temporary (unemployment) social needs. These needs are great and varied in the present and in the foreseeable future, the most urgent one being settlement of millions of refugees and immigrants and their economic recovery. Operating under injunction to break even, the households of the eight land governments of the bizonal areas nevertheless showed a deficit of more than DM ½ billion in the second half of 1948, which was met chiefly by drawing down the original allotments of D-Mark.

The problem of the allocation of power over credit is of course tied to the general problem of saving and investment in the economy. It is easy to see that the issue of "thrift *vs.* extravagance" cannot be met simply by putting strings on the government's purse. It is harder to ensure a sufficiently high volume of savings in a socially acceptable form under the circumstances prevailing in Germany. To this basic problem, inflationary recovery under slack controls has not provided an answer. The volume of savings that is currently expected even on most optimistic assumptions, falls far short of estimates of necessary capital formation for essential purposes (DM 6.6 billion for 1949-50). Profit accumulation in many lines of business has been considerable since currency reform; but part of it has been dissipated in unessential investments and purchases of luxuries. At the present time, the problem of making austerity popular and of directing the savings that are forthcoming to essential uses is unsolved. What began as a nominally noninflationary policy ran into all the social equity problems, if not the economic problems, of inflation because of failure to enforce austerity in a socially acceptable manner.

This failure, however, should not be attributed to a lack of determination on the part of the man who carried the chief executive responsibility for economic policy during the period following monetary reform, Professor Ludwig Erhard, director of the bizonal Office of Economic Administration. Erhard deliberately relied on market forces to enforce greater productivity and savings. It was his policy to make the new markets the vehicle of recovery and to wait for a larger aggregate of income to soften the impact of growing inequality. Within the given difficult setting, lacking power over fiscal policy, and endowed with a

disintegrating and corrupted control machinery, probably no German leadership could have engineered recovery in a less objectionable manner under the circumstances of 1948. But this did not make the economic recovery a social success. The increase of economic inequality between employers and workers, between the native population and the refugees, between the owners of property and goods and the holders of small cash savings put the stamp of inequity on the recovery process and invited irresponsibility and conflict.

Erhard's economic policy may be examined under three headings: (1) re-establishment of markets; (2) slackening of controls; (3) steering of markets.

Re-establishment of Markets

Markets sprang up through the withdrawal of all-comprehensive price, rationing and allocation controls. The extent of this move can be seen in Table IV. Practically all of the listed goods previously had been under allocation and/or rationing and—including the services—under maximum prices, and many of the manufactured articles had practically vanished from the legal markets. Now great hoards of razor blades, kitchen utensils, furniture, bicycles, building materials, home and factory equipment, etc., were disgorged and absorbed by eager buyers.

The re-appearance of legal markets and effective prices was a turbulent process. Prices of the decontrolled commodities ceased to be uniform and stable. Buyers spent their new money freely, held back for fear that the money would give out, spent again when they got more money through conversion or the sale of hoards, bought for fear of rising prices, stopped again under the pressure of lagging incomes from work. The black market was disorganized, at least temporarily, and the new black market that began to form showed a much lower price level than the old. Bilateral exchange went out of existence overnight; but in the fall of 1948 a relapse into the practice was noted in some places.

Slackening of Controls and Price Movements

Not all controls were abolished (see Table IV); but most of those that remained were relaxed by the administration or circumvented by the people. Little was done to provide the crumbling control agencies with new powers or guiding principles. Where controls remained, the black market was permitted to spread and to gain acceptance by the new spirit of "enrichissez-vous." Freed of social opprobrium, it expanded considerably in the field of food distribution.

Two months before currency reform the Anglo-American occupation

authorities permitted coal and basic steel prices to rise. The increases amounted to about two-thirds and one-half, respectively, of previous

TABLE IV.—EXTENT OF DECONTROL, FALL, 1948[*]

A. *Remaining under Maximum Prices*
- Basic foodstuffs and agricultural products[a]
- Coal and coal products[b]
- Crude oil, liquid fuels from petroleum[b]
- Crude iron and steel and primary output of rolling mills[b]
- Iron ore and scrap[b]
- Non-ferrous and precious metals[b]
- Fertilizers and insecticides[b]
- Insulin and penicillin[b]
- Tobacco and tobacco products[b]
- Rents and leases
- Film rentals and entrance fees
- Certain professional fees and charges
- Rail rates
- Rates for electricity, gas and water
- Public insurance policies
- Trade margins on foreign trade

B. *Remaining under Fixed Minimum and Maximum Prices*
- Agricultural items: grain and products, potatoes, oilseeds, sugar, butter, yeast, farm prices of milk, sugar beets, slaughter cattle
- Rates for inland waterway and long distance truck transport
- Rates for compulsory motor vehicle insurance
- German medicinal tariff

C. *Free of Price Control*
- Fresh fruits and vegetables, game, hone, coffee, tea, spices, wine, cider
- Restaurant meals[a]
- Virtually all manufactured products
- All chemicals except fertilizers and insecticides
- All timber[b] and all wood products
- All paper products
- Textiles and clothing[c]
- Hides, leather and shoes
- Lubricants, greases, wax, paraffin, industrial benzol
- Pitch and products
- Most pharmaceuticals and cosmetics
- Glass and ceramics
- All building materials
- Output of the metal industries beyond the very early stages
- Potash and salt
- Purchase and sale of land and buildings
- Insurance premiums
- Various other public and private fees

[*] Source: Price Analysis Section, Bipartite Control Office, Frankfurt, Germany.
[a] Remaining under rationing.
[b] Remaining under some form of allocation.
[c] Under a point system of rationing, at retail level.

prices. A few weeks after reform, a further increase of the coal price was accepted, leading to an aggregate rise of about 100 per cent over the level maintained till the 1st of April, 1948. A second steel price

TABLE V.—INDEX NUMBERS OF RAW MATERIAL PRICES, BIZONAL AREA*
(1938=100)

Materials	Middle of June 1948	Middle of October 1948
Basic Foodstuffs		
Rye and wheat	about 101	about 125
Barley and oats	about 101	116
Potatoes	148	166
Sugar	130	130
Oleomargarine	126	126
Butter	169	169
Eggs	106	499[b]
Beef cattle, on hoof	119[a]	170
Pigs	117[a]	161
Weighted average of 15 basic foodstuffs	124	152
Industrial Raw Materials		
Coal (*Steinkohle*)	164	207
Lignite	108	147
Iron	215	215
Copper	261	317
Lead	454	732
Zinc	493	684
Aluminum	96	126
Thomas fertilizer	103	131
Phosphates	164	125
Cotton and cotton yarn	359	359
Wool	174	174
Rayon	138	154
Cattle hides	100	560
Calf skins	100	605
Cellulose	181	248
Bricks	189	230
Cement	132	158
Lumber, cut	143	228
Sulphuric acid	159	223
Gasoline	103	103
Rubber	164	71
Weighted average of 29 industrial raw materials	176	214
General index	155	189

* Statistical Office of the Combined Economic Area: *Statistische Monatszahlen*, Wiesbaden, November 1948, 38.

[a] Excluding subsidies paid in British zone to the end of June, 1948.

[b] A free price; no eggs being available at the legal maximum price that was re-imposed after initial control.

increase proposed by the industry, however, was rejected in view of the economies brought about by the considerable increase in steel production. The controlled prices of nonferrous metals were raised by substantial amounts. In this way, and through the rise of various decon-

TABLE VI.—LEGAL AND BLACK MARKET PRICES IN HAMBURG BEFORE AND AFTER REFORM, 1948*

Commodity	Unit	May 15	June 19	June 30	July 15	Aug. 15	Sept. 15	Oct. 15	Nov. 15
Rye Bread									
legal	1 kg	.35	.35	.35	.35	.41	.41	.41	.41
black		9.50	16.00	1.15	1.03	1.15	.92	1.06	1.02
U.S. Wheat Flour									
legal	1 kg	.44	.44	.44	.44	n.a.	n.a.	n.a.	n.a.
black		40.00	120.00	3.00	3.00	3.10	3.10	3.20	3.75
White Sugar									
legal	1 kg	1.18	1.18	1.18	1.18	1.18	1.18	1.18	1.14
black		40.00	160.00	6.00	5.50	5.00	5.20	5.60	6.65
Butter									
legal	1 kg	3.60	5.12	5.12	5.12	5.12	5.12	5.12	5.12
black		480.00	1000.00	22.00	24.00	23.00	24.00	30.00	39.30
Oleomargarine									
legal	1 kg	1.96	2.44	2.44	2.44	2.44	2.44	2.44	2.44
black		360.00	700.00	14.00	15.00	16.00	15.00	17.50	20.50
Eggs									
legal	each	.13	.13	.35[a]	.40[a]	.60[a]	.65[a]	.90[a]	.30
black		8.00	20.00						.95
Coffee									
legal	1 kg	n.a.	n.a.	n.a.	n.a.	54.00	48.00	56.00	26.12
black		600.00	2000.00	48.00	47.00	45.00	41.00	41.00	39.00
Tea									
legal	1 kg	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
black		900.00	4000.00	80.00	60.00	67.00	66.00	67.00	75.00
German Cigarettes									
legal	each	.16	.16	.16	.16	.16	.16	.16	.10
black		2.00	15.00	.20	.20	.20	.18	.18	.17
American Cigarettes									
legal	each	.30	.30	.30	.30	.30	.30	.30	.25
black		6.00	40.00	.30	.40	.40	.40	.40	.44

* Source: Price Analysis Section, Bipartite Control Office, Frankfurt.
[a] Free price.

trolled prices, the long delayed adjustment of basic industrial prices to cost increases materialized, and since expansion of production generally tended to lower unit costs, their producers found themselves in a more comfortable price position.

The index numbers, published by the Bizonal Statistical Office (Table V) reflect the extent of the price increases of primary products during the first four months after reform.

Upon decontrol, the prices of most finished industrial goods began to rise. The most significant consumer price increases up to the end of 1948, amounting to a doubling or even greater advance over previous prices, occurred with footwear where they reflected in part increased raw material prices, and with textiles where the prices of imported materials had remained unchanged. In view of the urgent need for shoes and wearing apparel in the population, the great price increases and the weakening of rationing controls over these goods caused much public discontent. The pricing of shoes and textiles out of the reach of industrial workers brought "compensation trade" back on the stage. Toward the end of 1948 there were growing signs of producers making deliveries contingent upon counter-deliveries of wearing apparel, and of their offering the goods to the workers, at reduced prices, in place of wage increases.

The prices of basic foodstuffs have been raised since reform by about as much as the prices of industrial materials. The weighted average of 15 basic foodstuffs in Table V increased by 23 per cent, that of 29 industrial materials by 22 per cent. But food prices have not risen proportionately to the advance of decontrolled *finished* industrial goods. As a result of this discrepancy and the weakness of controls, a considerable expansion of the black market for meat and other foodstuffs seems to have taken place. Despite the excellent crop, official bread grain deliveries in the bizonal area, August through November, 1948, were little higher than during the corresponding months of 1947, a very bad crop year, and actually lower than in 1946.[17] Supplies were used to feed poultry and cattle, whose products can be sold profitably on the black market. Black market foodstuffs can be obtained generally and easily from retailers at prices two to five times the legal levels.

The reduced price spread and the apparently larger volume of transactions distinguish the post-reform black market from its predecessor. The transition from one price level to the other can be seen in Table VI, which shows the development of legal and black market prices in Hamburg. The data indicate the liquidation boom of

[17] OMGUS: *Monthly Report of the Military Governor,* Statistical Annex XXII, December, 1948, p. 89.

the old black market in the days before June 20th, and the following sharp adjustment. It will be seen that the black market price for coffee temporarily dipped below the legal price after the latter had been raised by a high excise tax.[18]

A general black market price index has been reported for six towns in Bavaria.

TABLE VII.—INDEX OF BLACK MARKET PRICES IN SIX BAVARIAN TOWNS*
(Average legal retail price=1)

Year, 1948	
Before currency reform	
May 15	93.3
June 15	127.9
After currency reform	
June 30	3.8
July 27	3.7
August 27	3.7
September 24	4.1
October 1	4.3

* Source: Munich Research Office for Economics, quoted in Bipartite Control Office, Price Analysis Section: *Price and Market Developments*, 33rd Report, October 25, 1948.

Following the ideas of "market splitting" that have attracted some interest among German economists,[19] it has been proposed to abolish the compulsion to deliver the entire production of basic foodstuffs at legal prices, and to replace it by quota deliveries at legal prices (the controlled market) and free sales of production in excess of quotas (the free market.) Such a procedure might help sustain deliveries while maintaining the low cost of the basic food ration. But it has not been adopted, since the German authorities felt unable to administer it. The German authorities would have abolished rationing and price control of foodstuffs altogether, if the occupation authorities had not prohibited such a measure.

As a result of these price movements there occurred a noticeable increase of legal living costs. The bizonal cost of living index advanced from 134 per cent of 1938 in June, 1948 to 144 per cent in December; but this index understates the actual increase that occurred in the transition from legal prices before reform to controlled and uncontrolled official prices after reform, if only for the reason that retailers usually quoted nominal prices to the official price collectors. Any true evalua-

[18] This excise tax, imposed under the "little tax reform" of June, 1948, was reduced later in the year.

[19] One of the clearest formulations can be found in a pamphlet by Professor W. Kromphardt, "Marktspaltung und Kernplanung in der Volkswirtschaft," *Dortmunder Schriften zur Sozialforschung*, No. 3, Hamburg, 1947.

tion of the development of living costs through this period of institutional change would have to allow for the changing volume and price level of the black market. It would probably show an average increase of more than 10 per cent in effective living costs during the second half of 1948.

There was also a noticeable advance of wages during this period. The principle of the general wage stop was maintained after currency reform until the Economic Council resolved to abolish it in October, 1948. But the wage ceiling had been raised shortly before the reform when the Allied authorities permitted wage increases up to 15 per cent of the payrolls involved. These increases were consummated chiefly after the reform and led to a rise of average hourly earnings in industry by 16 per cent from June to December, 1948. Average weekly hours of work increased from 41 to 44, *i.e.*, by 8 per cent, and average weekly earnings by 25 per cent. In December, 1948 the average hourly earnings of industrial workers stood at 141 per cent of 1938.[20] Their rise during the second half of 1948 was greater than that of the official cost of living index (9 per cent), but smaller than that of output per man hour in industry (18 per cent).

Steering of Markets

The development of prices and wages stimulated demands for more effective price controls. The trade unions, in particular, opposed the dissolution of the old price control system and demanded the reestablishment of a central price administration. The demand for stricter price controls, possibly assisted by subsidies, may receive further impetus from the increase of the prices of imported foodstuffs that is likely to follow the application of the 30-cents conversion rate to these imports, scheduled to go into effect on May 1, 1949.[21]

Professor Erhard strongly opposed a revival of governmental price controls. A law against extortionate prices was passed by the bizonal Economic Council to placate the opposition. It made the charging of "obviously excessive prices" a penal offense and put a paper weapon into the hands of a paper enforcement agency. In addition, the bizonal administration undertook to publish lists of "normal prices" and ordered merchants to display them in their stores. These lists may have been no less effective in encouraging price increases up to the "normal" levels than in checking high prices. Producers were encour-

[20] Statistisches Amt des Vereinigten Wirtschaftsgebietes, *Wirtschaft und Statistik*, Vol. 1 (new series), No. 1 (April, 1949), p. 22.

[21] Previously, basic foodstuffs brought in under Military Government programs were sold at legal domestic prices, implying a conversion rate of more than 30 cents to the D-Mark. The same holds true for imported seed, fertilizer and medical supplies.

aged to control the wholesale and retail prices of their products. Finally, a program was initiated to make manufacturers produce consumers' goods, especially textiles, at relatively low prices. This so-called "Everyman" program was based on a study of the British "utility" program; but it lacked the strict rationing and price control features of the latter. Rather than a government program, it represents the advance of industrial recovery into the field of cheap, mass-produced consumers' goods after the market for more expensive goods had shown its limits.

In the main, the Erhard administration relied on productivity increases, competition and relatively scarce credit to stop the upward movement of prices and to forestall broad wage increases. Price declines in early 1949 seem to indicate a success of this policy; but they may also foreshadow the end of the decontrol period. The slack of the economy has been taken up and further progress is likely to demand more effective control policies in the fields of distribution, if not prices.

Through the introduction of a uniform conversion rate, the development of prices in Germany has become of significance for her exports, and German prices in turn have come under the influence of foreign price developments through imports. The linking-up of German and foreign prices still is in an experimental stage, with substantial exports leaving the country under special arrangements implying a cheaper D-Mark, and imports, especially of foodstuffs, coming in on terms of implying a dearer D-Mark. In conjunction with the rise of domestic prices, the 30-cents conversion rate tended to discourage exports of various manufactured goods and caused export interests to demand a 27- or 25-cents rate. A lowering of the conversion rate would of course tend to make imported raw materials and foodstuffs more expensive. The occupation authorities, who have exclusive jurisdiction in this matter, have held on to the 30-cents rate for the time being, exploring the problems and watching the pressures affecting the issue.

Performance of the Economy

The substantial recovery of the Western German economy since mid-1948 is apparent from industrial production and foreign trade statistics. Between June and December, 1948, the bizonal index of industrial production rose from 51 per cent of 1936 (same area) to 78 per cent, that is by 53 per cent. Recovery in the producers' goods industries was on the whole somewhat faster than in the consumers' goods industries, with iron and steel production rising from 30 to 51 per cent of 1936, vehicle construction from 26 to 69 per cent, electrical equipment from 81 to 163 per cent; but the advance of such consumers' goods industries as shoes (from 29 to 75 per cent of 1936) and textiles and clothing (from 36 to 59 per cent) was quite remark-

able too. The ratio of current production to that of 1936 in the same area, however, is no measure of the relative level of industrial supplies available, especially on a *per capita* basis. Considerable changes in the structure of industry and trade and the great population increase in the area, among other things, have held that level much below 80 per cent of 1936.

In the field of foreign trade, the second half of 1948 showed a radical improvement of the volume of intake and outgo and a better share of manufactured products in total exports. The excess of merchandise imports over exports, however, remained the same in absolute amount.

TABLE VIII.—MERCHANDISE TRADE OF THE BIZONAL AREA, IMPORTS AND EXPORTS*
(RM or DM, 000,000 omitted)

Imports	Foodstuffs	Industrial			Total
		Raw Materials	Semi-finished Products	Finished Products	
1936	797.0	967.0	417.0	186.0	2,367.0
First half of 1948, annual rate	1,494.4	470.6	291.0	85.6	2,341.6
Second half of 1948, annual rate	2,115.6	992.4	613.4	224.8	3,986.2
Exports					
1936	57.0	317.0	291.0	2,055.0	2,720.0
First half of 1948, annual rate	54.6	262.4[a]	283.2[b]	368.8	969.0
Second half of 1948, annual rate	42.6	652.4[a]	801.8[b]	1,167.8	2,664.6

* *Monatliche Aussenhandelsstatistik des Vereinigten Wirtschaftsgebietes*, December, 1948. Data include the foreign trade of the U. S. and British sectors of Berlin. 1936 data are estimates of foreign trade activities directly affecting the same area in that year.

[a] Chiefly coal and lumber exports.

[b] More than three-fifths consisting of coke exports.

The progress of the general efficiency of the Western German economy cannot be assessed as easily as the progress of its gross output. On the one hand the economy rests on the props of American and to a lesser extent British aid, amounting to about $1.2 billion currently, on an annual basis. On the other hand, it is subject to the drain of occupation costs, amounting to a total of similar if not slightly higher magnitude,[22] and a certain amount of leakage caused by smug-

[22] For 1947-48, Dr. Eduard Wolf estimated the overt (budgeted) occupation costs, including expenditures for displaced persons, reparations, restitutions and demilitarization, at RM 4.6 billion in the Bizone, RM 5.3 billion in the Trizone. ("Investitionbedarf, Sparvolumen, Zahlungsbilanzausgleich," *Zeitschrift fuer das gesamte Kreditwesen*, October 15, 1948). The current rate of these expenditures was probably lower in early 1949; but it is not likely to have dropped below DM 4 billion, or the equivalent of $1.3 billion.

gling (capital flight)[23] and the lack of coordinated control over the external trade of the French zone. The prospects of the German balance of payments would of course improve if part of the occupation costs came to be treated as invisible exports, and paid for accordingly, as they are in Austria. Without such an arrangement, the bizonal economy still has a long way to go to raise its exports to the target rate of about \$3 billion (DM 10 billion) for 1952-53, and to reduce its import surplus, particularly with the dollar area, significantly. Along this way, it must expect to find great external obstacles and small rewards in terms of higher living standards.

The economic efficiency of the incipient Western German state is limited by the decay of the body politic that advanced greatly during the Hitler period and that cannot be considered as checked today. The physical recovery that has taken place has given the German society a new lease on life; but neither the new economic institutions nor the external aid that is fed to the system are bound to produce a healthy and peaceful community. The new markets do not necessarily encourage democracy and there is not enough democratic authority to assure fair trading in the markets. It is too early to say whether the economic and social problems opened up by the reforms and the policies of 1948 will be more tractable than the problems that were solved by them. The present experience only shows that the German economy reacted to strong new stimuli after several years of great disorganization, and it proved once more its capacity to produce.

[23] In a press conference on January 26, 1949, General Clay estimated the loss of foreign exchange through smuggling as \$100 to 200 million per year, currently.

The turnover of D-Marks in the Swiss currency markets was reported as DM 1 to 2 million per day at the end of 1948. (*New York Times,* December 27, 1948.) The free exchange rate for the D-Mark on the Zurich market was about \$.07 in mid-October, 1948, \$.14 in mid-April, 1949.

ANALYSIS OF DISSAVING

By George Katona*

The analysis of saving by consumers has traditionally been conducted on rather simple lines. On the aggregate level saving, defined as the difference between personal income and consumer expenditures, was usually expressed by one magnitude, either in billion dollars or in per cents of income. It was assumed that the most important variable determining both the amounts saved and the proportions of income saved is the given income level. Numerous investigations confirmed that years of high personal income were characterized by high saving and years of low income by low saving, occasionally even by net dissaving. According to the most recent estimates of the Commerce Department, consumer expenditures exceeded disposable personal income only during the deepest depression, namely in 1932, 1933, and 1934.

Similar considerations were applied when the analysis was made on the level of individual families. The results of expenditure surveys were presented in one continuum. Amounts saved were ranked from the largest saver to the smallest saver, then to the "zero saver" (whose expenditures equalled his income), then to the smallest dissaver, and finally to the largest dissaver. It was sometimes assumed that the large savers were, on the whole, the high-income people, and the dissavers, the low-income people. The dissavers were considered the unfortunate people who were unable to make ends meet and therefore were compelled to reduce their assets (to consume part of their wealth) or to mortgage their future by borrowing. Not only aggregate and average savings were assumed to increase with income, but it was also thought that the higher the income, the larger will be the proportion of the savers and the smaller the proportion of the dissavers.

Are these assumptions generally valid or do we know of any exceptions? More specifically: Is it always true that when income increases, average rates of saving also increase and the proportions of dissavers decrease? The answer is that in 1946 and 1947, in terms of money income, the opposite happened. This is shown in Table I, in which the aggregate computations of the Commerce Department are presented, together with survey data[1] which show distributions of individual

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[1] The material presented in this article is taken from the Surveys of Consumer Finances, conducted by the Survey Research Center of the University of Michigan for the Board

TABLE I.—TREND OF CONSUMER SAVING, 1945–47

	1945	1946	1947
Aggregate Data[a]		(In billion dollars)	
Personal income after taxes	149	159	174
Personal saving	27	12	9
Saving in per cent of income	18%	7%	5%
Micro-economic Data[b]		(In per cent of all spending units)	
Proportion of positive savers	70	65	64
Proportion of zero savers	13	8	8
Proportion of dissavers	17	27	28
	100	100	100
		(In per cent of aggregate net savings[c])	
Amounts saved by positive savers	115	144	175
Amounts saved by zero savers	0	0	0
Amounts saved by dissavers	−15	−44	−75
	100	100	100

[a] Source: Department of Commerce.

[b] Data taken from Surveys of Consumer Finances conducted by Survey Research Center of the University of Michigan for the Board of Governors of the Federal Reserve System. The first survey was made early in 1946, the second, early in 1947, and the third, early in 1948. Each survey was based on a separate representative sample of consumers in continental United States living in private households.

The consumers were grouped in spending units, defined as all related persons living in the same dwelling who pool their incomes for their major expenditures. There are about 15 per cent more spending units than family units.

The amounts saved or dissaved were determined by asking separate questions about each form of saving (change in bank deposits, life insurance premiums, installment purchases, etc.). Positive savers are the units whose income exceeds their expenditures, dissavers the units whose expenditures exceed their income.

The definition of saving as used in the surveys (see *Federal Reserve Bulletin*, August, 1948, pp. 928–29) is not quite the same as that used by the Commerce Department. The most important differences are that the Commerce Department does and the surveys do not include in the savings schedule depreciation on farms and nonfarm homes, and that the surveys include all insurance premium payments, not only additions to insurance reserves. Therefore, aggregate net savings as computed from the surveys are higher than those computed by the Commerce Department. According to the definitions used by both agencies, purchases of consumer durable goods are considered as expenditures and not savings. Finally, additions to and withdrawals from currency holdings are disregarded in the surveys.

[c] The total amounts of net savings are taken as 100, and the share of positive savers and of dissavers in that total is shown. The table serves to indicate the relation between amounts saved and dissaved in the three years. It must be kept in mind that the base of each of the three columns is different. The amounts of net savings were much smaller in 1947 and 1946 than in 1945.

families. The aggregate figures show only *net* saving, which represents the difference between amounts saved and amounts dissaved, and they

of Governors of the Federal Reserve System. Reports of the surveys, containing a description of the sample, of interviewing methods, of the reliability of findings, as well as of results, appeared in the *Federal Reserve Bulletin* (see the June, July, and August 1947,

The material presented in this article is taken from the Surveys of Consumer Finances, conducted by the Survey Research Center of the University of Michigan for the Board

"do not reveal the number of families who spend more than they earn."[2]

We find that, in dollars, personal income increased both in 1946 and 1947. Yet in 1946 the proportion of consumer units who dissaved increased considerably and the share of total dissavings in the aggregate net savings increased likewise. In 1947 there was hardly any change in the proportion of savers or dissavers, but the share of total dissavings rose further. The amounts saved by the positive savers remained considerable in both years, although they were much smaller than during the war. These data are presented to form the starting point of the analysis. Since they are expressed in terms of money income and do not show the relation of high or low rates of saving to income, they do not necessarily contradict the general assumptions that were described previously.

The most striking development of the years 1946 and 1947 was the increase in the number of dissavers and in the amounts dissaved. Therefore, the relation of consumer saving to income and to other variables will not be analyzed for all American families, but positive savers—the roughly two-thirds of families who spent less than their income—and dissavers—the over one-fourth of the families who spent more than their income—will be studied separately.

Before beginning with this study, attention must be called to the definition of saving used (see also note to Table I). Addition to liquid asset holdings, life insurance premiums, new investment in houses, businesses and securities, and repayment of debt are considered as amounts saved, and the reverse of these transactions as withdrawals from savings. What is most controversial in this definition is that some housing expenditures (additions to and improvements of homes owned) are treated as saving, and that purchases of consumer durable goods are treated as expenditures. If the former were not considered as additions to the permanent wealth of the consumer, the proportion of savers and the amounts saved would have been smaller during the first postwar years; if the latter were considered as such additions, the reverse would have been the case.

The years 1946 and 1947, that are being studied here, are often called "abnormal" years. They are so considered because they follow

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and the June, July, August, and September 1948 issues). Most of the data presented in this article have not been published previously. The author of this article was in direct charge of the surveys. He wishes to acknowledge his great indebtedness to his collaborators, both in the Survey Research Center and the Division of Research and Statistics of the Federal Reserve Board. Mr. Joseph Clawson was especially helpful in preparing this article. Those who financed, supervised, and contributed to the surveys are, however, not responsible for the conclusions drawn from survey material in this article.

[2] *Midyear Economic Report of the President*, July 1948, by the Council of Economic Advisers (Washington, 1948), p. 7.

the war years in which consumers accumulated huge amounts of liquid assets and abstained from buying durable goods and from repairing and improving their homes. Therefore, the developments of these years are sometimes thought unsuitable for the analysis of relationships between economic variables.

Since it is questionable whether any given years ever present "normal" patterns, this argument points to limitations of short-run, cross-section studies. Naturally such studies need to be supplemented by time-series studies extended over many years. But the reverse statement also holds good. One objective of this paper is to show that the usual aggregative time-series studies need to be supplemented by micro-economic short-run analysis.[3] The other objective is to shed light on certain trends of the recent past which may affect developments in the near future.

Relation of Positive Saving to Income

The analysis of positive saving appears to confirm the traditional views. The higher the income, the larger was the proportion of positive savers and especially the proportion of large positive savers (units who saved over $500) in 1946 and 1947. If in addition to the number of positive savers, the amounts saved by them are also taken into account, as is done in the right-hand side of Table II, the differences are more pronounced. Low-income groups accounted for a very small share of the total amounts of positive saving, while the top 10 per cent of income receivers alone saved about one-half of the amounts saved by all people. The sharply accelerated curve of positive saving in relation to income can be seen in Figure 1.

A similar relationship is obtained if instead of all positive saving the two most important forms of saving are considered. Additions to liquid asset holdings (savings bonds, and savings and checking accounts) and savings usually contracted for many years in advance (life insurance premiums, payments into retirement funds, and repayment of mortgage debt) represented during the last two years the most frequent ways of saving, responsible for most of the amounts saved. Both forms of saving gain in frequency when income increases (Table III, Part A). This relationship becomes more pronounced when large amounts of saving are considered.

This does not mean that positive saving is the function of nothing but the given income level. No detailed analysis of the relationship of posi-

[3] See the author's paper, "Contribution of Psychological Data to Economic Analysis," *Journal of the American Statistical Association*, Vol. 42, pp. 449 ff., 1947, on the relation between aggregate financial data, micro-economic financial data, and attitudinal and motivational data.

Advisers (Washington, 1948), p. 7.

tive saving to other factors will be presented here. Yet it may be noted that many of the variables which show a positive correlation to amounts saved are themselves correlated with income (liquid asset holdings, urban or rural residence, occupation, etc.). By studying the influence of these factors on saving within identical income groups, it appears that certain occupational groups (businessmen, business managers, pro-

TABLE II.—RELATION OF SAVING AND DISSAVING TO INCOME

Spending Units Ranked According to Their 1947 Money Incomes Before Taxes	Proportion of Spending Units in Each Income Decile Who in 1947[a]				Distribution by Income Deciles of Aggregate Amounts of			
	Saved Any Amount	Dissaved Any Amount	Saved Over $500[c]	Dissaved Over $500[c]	Positive Savings[b]		Dissavings[b]	
					1947	1946[d]	1947	1946[d]
Lowest tenth (less than $750)	41%	25%	3%	12%	1%	1%	15%	13%
Second tenth (from $750 to $1200)	53	33	3	7	1	2	6	12
Third tenth (from $1200 to $1700)	60	29	5	11	2	3	7	7
Fourth tenth (from $1700 to $2100)	62	31	12	5	4	4	5	8
Fifth tenth (from $2100 to $2550)	68	27	20	8	5	5	6	13
Sixth tenth (from $2550 to $3000)	69	30	20	12	6	6	11	11
Seventh tenth (from $3000 to $3500)	69	30	28	12	7	8	10	11
Eighth tenth (from $3500 to $4200)	64	33	30	16	8	12	10	7
Ninth tenth (from $4200 to $5700)	73	27	42	13	14	15	11	12
Highest tenth (over $5700)	82	17	65	13	52	44	19	6
All Groups	64	28	23	11	100	100	100	100

[a] The data indicate, for instance, that among the 10 per cent of spending units who had the lowest incomes in 1947 (whose income before taxes was less than $750) 41 per cent saved some money, 3 per cent saved over $500, 25 per cent dissaved, and 12 per cent dissaved over $500.

[b] The total of dollar amounts saved by all positive savers, and the total of dollar amounts dissaved by all dissavers, are taken as 100 per cent; the share of the units in each income decile in these totals is shown.

[c] Large positive and large negative savers are defined here as spending units who saved (dissaved) $500 or more. This definition is used, in preference to defining large savers as units saving a high proportion of their income, because of the importance of large amounts saved and dissaved for the entire economy.

[d] Positive savings and dissavings in 1946 are related to income in 1946. The presentation of other data for the year 1946 is omitted; the proportion of spending units in each income decile who saved or dissaved in 1946 shows a similar trend as the proportion who saved or dissaved in 1947.

fessional people, and farm operators) and people in the middle-age groups saved in 1946 and 1947 a somewhat greater proportion of their income than other occupational groups or younger and older people.

Relation of Dissaving to Income

The analysis of dissaving will be carried out in greater detail because dissaving in its relation to income, as well as to other factors, does not present a picture that is the reverse of that of positive saving. First of all, dissaving was unevenly distributed in the various income groups. The statement "the lower the income, the larger the proportion of dissavers," was not confirmed in either 1946 or 1947. Most of the differences in the proportion of units in each income decile who dissaved are so small (Table II) as to be not significant statistically. Only in the

TABLE III.—RELATION OF THE MOST IMPORTANT FORMS OF SAVING AND DISSAVING TO INCOME, 1947

A. Forms of Positive Saving[a]

1947 Money Income before Taxes	Proportion of spending units in each income group who:			
	Increased liquid asset holdings by[b]		Saved in contractual forms[c]	
	Any Amount	Over $500	Any Amount	Over $500
Under $1,000	12%	2%	45%	1%
$1,000–1,999	20	4	66	2
$2,000–2,999	26	6	84	5
$3,000–3,999	31	11	90	9
$4,000–4,999	33	15	90	15
$5,000–7,499	38	24	90	26
$7,500 & over	46	37	89	53
All Groups	26	10	77	10

B. Forms of Dissaving[a]

1947 Money Income before Taxes	Proportion of spending units in each income group who:			
	Decreased liquid asset holdings by		Borrowed money[d]	
	Any Amount	Over $500	Any Amount	Over $500
Under $1,000	19%	8%	10%	1%
$1,000–1,999	29	8	17	2
$2,000–2,999	35	11	23	4
$3,000–3,999	38	17	24	7
$4,000–4,999	40	22	23	6
$5,000–7,499	40	25	19	6
$7,500 & over	29	21	11	7
All Groups	33	14	19	4

[a] Spending units who increased their liquid asset holdings and who saved in contractual forms are not necessarily positive savers. Units who reduced their liquid asset holdings and who borrowed are not necessarily dissavers. Some few of the former dissaved through selling houses, businesses or securities. Some of the latter used the money they borrowed or withdrew from liquid assets for investment purposes.

[b] Liquid asset holdings include U. S. Savings Bonds and savings and checking accounts with banks, loan associations, credit unions, and postal savings.

[c] Premium payments on life insurance, payments into retirement funds, and repayments of mortgage debt.

[d] Amounts borrowed on installment and from banks, credit unions, and loan companies. Borrowing money by taking out a mortgage on a newly purchased (or built) house is not included.

highest income decile did the proportion of dissavers drop significantly in 1947, but even this finding is contradicted if large dissavers, instead of all dissavers, are considered.

Similarly, the share of consumer units belonging to each income decile in the total amounts dissaved shows no regularity whatsoever, again in contrast to positive saving. In 1947—not in 1946—it so happens that the lowest and highest income deciles had the two largest shares in the amounts dissaved. The assumption that "the higher the income, the smaller the amounts dissaved" appears to be contradicted.

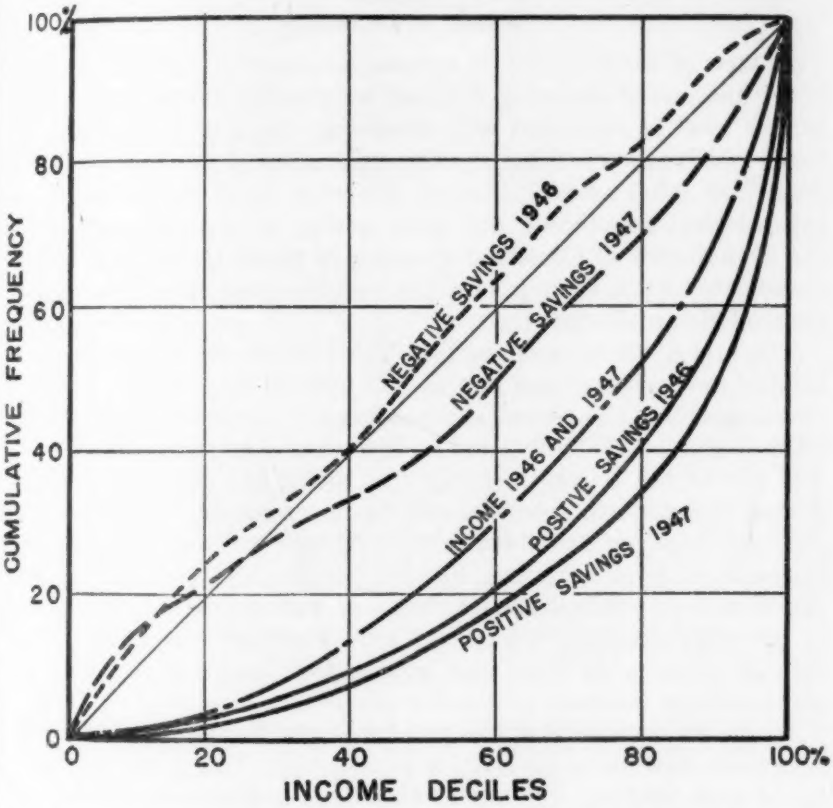

FIGURE 1. DISTRIBUTION OF INCOME RECEIVED AND AMOUNTS OF POSITIVE AND NEGATIVE SAVINGS BY INCOME DECILES

When, for 1946 and 1947, the amounts dissaved are ranked by the income of the dissavers, the curves are on both sides and close to the line drawn at an angle of 45 degrees (Figure 1), indicating the absence of any marked relationship of either high or low incomes to amounts dissaved.

Dissaving has likewise many forms, some of which were relatively infrequent in the last two years (for instance, net sale of common stock and of real estate, liquidation of business investments). In only two

ways did many families dissave, namely, by reducing their liquid asset holdings and by borrowing. Both forms of dissaving show an irregular relationship to income (Table III, Part B). Consumer borrowing was most frequent in the middle income groups. Large borrowing (over $500) and also withdrawals from liquid assets appear to increase with income, that is, behave in a way similar to positive saving.

Kinds of Dissaving

In view of these results, it appears necessary to make a new start in the analysis of dissaving. Suppose we abandon the assumption that income level is connected with dissaving; can any other factors be found which may contribute to the explanation of the phenomenon of dissaving? After several attempts governed by economic as well as psychological hypotheses, and after setting up the questionnaire for the 1948 Survey of Consumer Finances in a way that was suitable to investigate certain assumptions, five variables were selected for testing their relation to dissaving.

The first of these variables (see Table IV) is the statement of the head of the consumer unit that he had unusual expenses due to illness or emergencies. The second is the unemployed or retired status of the head of the unit. Thirdly, decline in income was taken into account. The test of the relation between this factor and dissaving was conducted in two steps, once with respect to income declines which, subjectively, were considered temporary and once with respect to all other instances of income decline. Finally, purchases of consumer durable goods, and especially large purchases of such goods, were thought to be related to dissaving because such purchases were frequently financed through drawing on previously accumulated assets or by borrowing, and not out of income.

It may be mentioned at this point that one further variable was investigated concerning its relation to dissaving. This is the amount of liquid asset holdings, the size of U.S. Savings Bonds and savings and checking accounts held (at the beginning of the year). It was found that, of the spending units who had no liquid assets, relatively few dissaved. Naturally, they could not reduce their liquid assets and it appears that most of them also did not, and possibly could not, borrow. But in comparing the holders of small amounts of liquid assets with the holders of large amounts, no significant differences were found in the frequency of dissaving.[4] Therefore, liquid asset holdings were not

[4] This negative finding may form the starting point of a study of the relationship of liquid as well as other assets to both dissaving and positive saving. Possibly different results would be obtained if owners of large assets were split into two or more meaningful groups.

TABLE IV.—TEST OF THE RELATION OF SAVING AND DISSAVING TO FIVE SELECTED VARIABLES, 1947

Variables	Percentage distribution of spending units who:			
	Saved		Dissaved	
	Any Amount	Over $500	Any Amount	Over $500
Illness, emergency	25	22	32	33
Unemployment, retirement	8	5	10	12
Temporary income decline	4	4	10	10
Other income decline	13	11	15	19
Large purchase of durable goods	12	19	27	41
Total	62	61	94	115
Proportion associated with the 5 variables (excluding duplications)	48	47	68	79
Proportion not associated with the 5 variables	52	53	32	21
	100	100	100	100

NOTE: All spending units who saved (who saved over $500, who dissaved, and who dissaved over $500) are taken as 100 per cent. The frequency of occurrence of each of the five variables is shown for the four groups. The frequency of the five variables among units whose expenditures were equal to their incomes (zero savers) is not shown.

Definitions: *Illness, emergency.* The heads of each spending unit were asked the following question: "Did anything unusual happen in 1947 to influence your savings? For instance, were there any large expenses for such things as illness, moving, or contributions for the support of others; or were your expenses unusually low for some reason?" All those who in answering this question referred to medical expenses, hospital expenses, child birth and death were put in this group. These were altogether 26 per cent of the nation's spending units.

Unemployment, retirement. This group—10 per cent of all spending units—consists of units the heads of which gave as their occupation at the time of the interview that they were unemployed or retired. Housewives who were heads of spending units are not included.

Temporary income decline. All spending units who had a lower income in 1947 than in 1946 and who expressed the opinion that in 1948 their income would be higher than in 1947. Lower and higher were defined as a difference of at least 5 per cent. Six per cent of the nation's spending units had temporary income declines, as defined.

Other income decline. Spending units whose income declined from 1946 to 1947 by at least 5 per cent and who are not included in the previous group. This group consists of 13 per cent of all spending units.

Large purchase of durable goods. Spending units who purchased automobiles or other selected consumer durable goods for at least $500 in 1947. The trade-in value of old cars was not included in the purchase price. Fifteen per cent of all spending units made such purchases.

included in the test, the results of which are presented in Table IV.

To answer the question whether a given variable is associated with dissaving, the frequency of its occurrence among dissavers will be compared with its frequency among positive savers. As a sort of rule of thumb, it may be assumed that a variable which occurred at least twice

as frequently among dissavers as among savers, and twice as frequently among large dissavers as among large savers, is one which greatly differentiates between the two kinds of saving behavior. Temporary income declines and large purchases of durable goods qualify in this respect. The other three factors show a much less pronounced association with dissaving. Relatively many retired and unemployed people saved small amounts in 1947, and relatively many who had illnesses or emergencies or who suffered an income decline (which they did not consider temporary) saved small as well as large amounts.

The upper part of Table IV contains "duplications." Some consumer units, for instance, had both emergencies and a decline in income, and some bought durable goods in spite of a decline in their income. When such duplications are eliminated, it appears that the five factors together accounted for a much higher proportion of dissavers than of savers. Taken together, the five factors were associated with 68 per cent of all those who dissaved in 1947 and as much as 79 per cent of those who dissaved more than $500. This means that it is possible to characterize a very large group of dissavers with the help of the variables listed in the table. It does not follow, however, that no other variables are related to dissaving. The present analysis is intended to represent a step forward in separating different groups of dissavers from each other, but is by no means the final step.

It was not possible to determine the extent to which price increases that had occurred in 1947 contributed to the relatively great frequency of dissaving in that year. But in the light of data presented in Table IV, it appears that some or much of that year's dissaving was not clearly connected with the price increases. Undoubtedly, families whose money income declined were those who were most affected by the price increases. Among all spending units in the nation, 19 per cent had a decline in income in 1947, among savers 17 per cent, and among dissavers 25 per cent. The differences are not very pronounced and, more significantly, three-fourths of the dissavers did not have a decline in income.

Having distinguished certain groups of dissavers from each other, we may return to the original problem of their relationship to income. It was shown before that the frequency of all dissavers, considered together, had no clear relation to the size of their income. This statement, however, need not be true for groups of dissavers that are considered separately. In Table V, therefore, the relation of three groups of dissavers, and of three groups of large dissavers, to income is investigated.

When we consider dissavers who had an illness, an emergency, or were retired or unemployed, it is found that they were most frequent in the lowest income groups. The higher the income, the smaller was

their frequency. A similar, though less pronounced relationship holds good for those who had a decline in income and dissaved. Therefore, for these two important groups of dissavers the original assumption has been confirmed: The higher the income, the smaller is the proportion of dissavers. This statement, originally assumed to hold good of all dissavers applies, however, only to those who dissaved under certain circumstances. There are other dissavers who show the opposite behavior. The higher the income, the larger was the proportion of those

TABLE V.—RELATION OF DIFFERENT GROUPS OF DISSAVERS TO INCOME, 1947

Money Income Before Taxes	Percentage distribution of spending units in each income group who:							
	Dissaved any Amount	Dissaved Over $500	Had Illness, Emergency, Unemployment or Retirement and		Had Income Decline (Temporary or Other) and		Made Large Purchases of Durable Goods and	
			Dissaved any Amount	Dissaved over $500	Dissaved any Amount	Dissaved over $500	Dissaved any Amount	Dissaved over $500
Under $1,000	26	9	16	8	11	5	2	1
$1,000–1,999	31	8	14	5	8	3	4	1
$2,000–2,999	30	10	12	3	7	3	9	5
$3,000–3,999	30	12	11	4	6	3	11	6
$4,000–4,999	30	16	13	7	6	3	13	7
$5,000–7,499	21	12	6	3	4	2	11	6
$7,500 & Over	16	13	5	4	4	4	11	8
All Groups	28	11	12	5	7	3	8	4

NOTE: The data indicate, for instance, that 26 per cent of those in the lowest income group were dissavers; 16 per cent of those in the same group were dissavers and had illness; 11 per cent were dissavers and had a decline in income; 2 per cent were dissavers and made large purchases of durable goods. That 16 plus 11 plus 2 exceed 26 is due to duplications within the sub-groups.

dissavers who spent large amounts for the purchase of durable goods. The resultant of the two contradictory trends is shown in the first two columns of Table V where all dissavers are considered and no clear relationship to income is apparent.

Interpretation and Conclusions

Since an association—for instance, between low income on the one hand and the frequency of dissaving and illness on the other hand—does not indicate a causal relationship, no use was made of the concepts of cause and effect in the presentation of the results. But in the following attempt to interpret the findings and to discuss their conse-

quences, it may be permissible to make use of the more common forms of language. It then appears that dissaving may occur under at least three circumstances (or their combinations):

1. Inability to meet "necessary expenses" out of income.
2. Unwillingness to meet "necessary expenses" out of income.
3. Willingness to make unusual expenditures.

First, there are people who, in a given period of time, are unable to cover their expenses for necessities (or their regular expenses) out of income. This may be the case because of illness or emergencies. It may also be the case because of unemployment or decline in income, and even because of certain purchases of durable goods that are considered inevitably necessary. Under these circumstances, some people will dissave. Not all such people will do so, because in the absence of assets and of credit dissaving is not possible. Furthermore, some people will abstain from dissaving even when in dire need and even though they hold assets. It seems that dissaving, because of inability to make ends meet, occurs more frequently among low- than among high-income people.

Secondly, there are people who under certain circumstances are unwilling to keep their living expenses at the level of their income. Typically, when income declines some people will keep up their standards of expenditure for rent, food, etc., even at the expense of drawing on assets or borrowing. Since dissaving was found to be more closely related to "temporary income declines" than to other income declines, it may be said that this behavior will be especially frequent when those whose income declined expect that their income will rise again. Unwillingness to make ends meet may, of course, also occur among retired people whose income had declined at an earlier date and not during the year in which the rate of saving is determined. In view of inflexible expenditures or obligations assumed at an earlier time, it may sometimes be difficult to distinguish the second instance of dissaving from the first.

Thirdly, there are people who decide to make certain unusual expenditures even though they will then spend more than their income in a given period. Purchases of consumer durable goods are a typical example, but large expenditures for vacation trips, or for clothing or luxuries, may lead to the same result. Dissaving, because of large purchases of durable goods, occurred more frequently among high- than among low-income people. Further investigations revealed one of the factors which contributed in 1946 and 1947 to the relatively great frequency of dissaving due to such purposes. More consumer units whose income increased and more units who expected income increases bought durable goods and dissaved than units whose income declined

and units who did not expect income increases. In other words, dissaving of that type was associated with income increases and with optimistic attitudes.[5]

It must be emphasized that dissaving may have several further forms which were not revealed by the current analysis. Also, the indications given in Table IV about the relative size of the various forms of dissaving in 1947 are suggestive at the best. Better methods used in determining the factors that led individual families to dissave may yield different proportions. But the preliminary analysis that was presented here permits us to draw the following conclusions.

First of all, dissaving must be considered a "short-run" or occasional behavior on the part of individual families. Only in one instance, in case of dissaving due to retirement, will it happen typically that a family would dissave for several consecutive years (when the family lives out of previously accumulated assets). It is, of course, also possible that a family with substantial assets would dissave one year because of the purchase of a car, the next year because of the purchase of furniture, the third year because of the purchase of a refrigerator, etc. But such purchases will more often be spaced over many more years or will occur together in the same year (in the year of marriage or the year in which a house was purchased). Moreover, if the dissaving takes the form of buying durable goods on installment, the next period will be typically one of saving since the installment debt must be repaid. Similarly, dissaving due to income decline will not often repeat itself. A decline of income in two consecutive years will probably lead to readjusting expenditure standards during the second year or will destroy the optimistic outlook of the family.

Preliminary investigations appear to confirm these assumptions. When people who dissaved or drew on their liquid assets in 1946 or 1947 were asked about their saving performance during the preceding year and about what they might be doing during the next year, most of them said that they had saved and will save money. The results are not conclusive because of several shortcomings in the methods used. Nevertheless, the following interesting conclusion may be noted: As shown in Table I, in each of the years 1946 and 1947 more than one-fourth of the American consumer units dissaved; it is conceivable that the proportion of those who dissaved in either of the two years was as high as 50 per cent of all units.

Under what conditions will dissaving be frequent and under what conditions will it be infrequent? One kind of dissaving appears to be

[5] Information on these points and also on the relation of saving and dissaving to income increases and income expectations is contained in the author's article "The Effect of Income Changes on the Rate of Saving," *The Review of Economics and Statistics*, 1949.

a sign of prosperous economic conditions and a factor bringing about such conditions. The higher the income, the more frequent was dissaving due to the purchase of durable goods. Income increases were also associated with such dissaving. Therefore, possibly, the frequency of such dissaving will increase if national income increases. The same might be true with respect to dissaving due to income declines. If the income of a family declines in a year in which most families experience the same fate and national income therefore declines, optimistic income expectations may be infrequent and expenditure standards may be adjusted rather promptly. If, however, the income of a family declines in a prosperous year in contrast to the general trend—19 per cent of the consumer units had lower incomes in 1947 than in 1946—dissaving may be the result in a substantial number of cases.

It is, therefore, not surprising that dissaving was relatively frequent during 1946 and 1947, that is, in years of full employment and high production. The frequent occurrence of dissaving during depression years, as shown by the 1935-1936 Consumer Purchases Study and the Commerce Department tabulations about aggregate personal saving in the early 'thirties, presents, however, new problems. In this respect, it must be recalled that dissaving is not a unitary phenomenon. It is possible that the proportion of families who dissaved is the same in two years, one of which is characterized by high and the other by low business activity, but the functions of dissaving differ greatly in those years. No empirical evidence is available about the kinds of dissaving that are frequent during a depression.[6]

It follows further from the evidence presented in this article that great caution must be exercised in using regression equations expressing the past relation between net saving and income for extrapolating fu-

[6] J. S. *Duesenberry* ("Income-Consumption Relations and Their Implications" in *Essays in Honor of Alvin H. Hansen*, New York, 1948) appears to relate dissaving in 1935-1936 to unemployment and to incomes that were low in comparison to previous incomes. This is possible, but as he himself states, cannot be proved on the basis of data available from the Study of Consumer Purchases. Duesenberry's major thesis that "cyclically, the aggregate propensity to consume depends on the ratio of current income to the highest income previously achieved" (pp. 79 ff.) disregards the possibility of a systematic relationship between income increases and the propensity to consume. Also, Duesenberry's statement is probably too broad; the highest income previously achieved may not affect the propensity to consume under all circumstances and in all future years.

We are, however, in full agreement with the major thesis of another recent paper. George Garvy ("The Role of Dissaving in Economic Analysis," *Jour. Pol. Econ.*, Vol. LVI, No. 5 [Oct., 1948], pp. 416 ff.) writes: "There is no logical reason for relating the motivations of two distinct groups of consumers—positive and negative savers—to the same set of causal factors" (p. 416). But in 1947 we found no confirmation for the following statement made by Garvy: "The presence in the population of relatively large groups of families who have suffered a loss of income accounts probably for the bulk of dissaving" (p. 423).

ture trends. Separate extrapolations of the saving and dissaving curves may present a somewhat better analytical tool because it appears to be justified to consider, in a simple model, positive saving as a function of income. But short-run generalizations ought to be based on the factors contributing to positive saving, to dissaving, and to shifts from the one to the other. The survey method appears to be a suitable tool to collect the information needed,[7] although—and this must be emphasized—the past surveys represent nothing but the start of an analysis of saving behavior. Conducting surveys over many years, adapting survey procedures to the specific objectives of consumer motivation, and using more refined statistical methods (for instance, multiple correlation analysis) may be listed among the requirements of further research.

With respect to the analysis presented in this article, the first requirement looms largest. To what extent are our findings accidental phenomena of the first two postwar years, or phenomena prevailing only in prosperous years? Very little evidence is available to answer that question, especially in view of the possible effects of wartime deferred demand on expenditures in 1946 and 1947. The relationship of dissaving to income must be studied further under different conditions, especially in years in which purchases of consumer durable goods are relatively small. With respect to the possible objection that the analysis was conducted in terms of money income while real income may not have increased in 1946 and in 1947, it may, however, be pointed out that differences in the behavior of upper and lower income groups formed the major source of our conclusions. What is true of differences in the behavior, or of the absence of such differences, of families with high or low money income during the same year applies also to high or low real incomes.

Disregarding theoretical problems, we may attempt to interpret the findings concerning recent past developments. The substantial shift in the consumption-income relation during 1946 and 1947 was accompanied by an increase in the frequency of dissaving. Ability to spend more than one's income was provided by the large liquid asset holdings and the small size of consumer debt outstanding at the end of the war. Willingness to spend more than one's income was provided by the relatively high income level and the optimistic expectations of most families. Some people decided to step up their purchases of goods and services because their income was high and was expected to remain high (and more durable goods became available). Other people de-

[7] This is also the conclusion of R. V. Rosa; see his article, "Use of the Consumption Function in Short-Run Forecasting," *Rev. Econ. and Stat.*, Vol. XXX, No. 2 (May, 1948), p. 100.

cided to keep up their expenditures even though their income declined because they were optimistic about their future incomes and the general economic outlook. There is evidence that desire to save did not decline after the end of the war. But many people expected to be able to fill up their savings again after they had depleted them in 1946 or 1947. Attitudes and behavior of consumers have then contributed to the prosperous economic conditions and to the inflationary pressure that prevailed in the first two postwar years.

THE EFFECTIVENESS OF THE FEDERAL ANTITRUST LAWS: A SYMPOSIUM

Introduction

Dexter Merriam Keezer*

Recently I asked a company of men who have been closely concerned with the development and enforcement of the federal antitrust laws (primarily as economists and lawyers) to check in broad terms my unhappy impression that "these laws have done relatively little since 1890 to protect and preserve a broadly competitive system."[1] I also asked my correspondents to indicate the principal reasons for their views. I did not address my inquiry to anyone currently charged with official responsibility for antitrust law development and enforcement. The purpose was to avoid any shadow of official optimism, or pessimism, about these laws.

In reply to my inquiry I received a set of communications which seem to me to constitute an illuminating symposium on the antitrust laws. Hence, the communications, edited only to the extent of avoiding unnecessary duplication of the same idea or argument, were cast in the symposium which follows.

It will be observed that the contributions to the symposium vary markedly in length, comprehensiveness of treatment, etc. In seeking them I wrote that it was no part of my intention to burden my correspondents "with making a closely analytical and heavily documented statement" but that a brief summary statement of general impressions would be greatly valued. Consequently, when the contributions are more than this they more than fulfill the request to which they were addressed.

Because of the inevitable lack of uniformity in the contributions it was, of course, suggested that it might reflect unfairly upon the participants who wrote briefer or more hurried statements to have them presented in symposium form. This will not be the case, however, if it is kept very clearly in mind, as it should be, that only a simple, informal statement of impressions was required to meet the specifications set. Also, in retaining the informal character of the communications the vitality of the symposium is, I believe, enhanced.

Since no more certainly effective arrangement of their highly diverse subject matter has manifested itself, the contributions to the symposium are

* The organizer of this symposium is director of the department of economics, McGraw-Hill Publishing Co.

[1] In making my inquiry I explained that I did so "as one who would very much like to see the antitrust laws so enforced as to preserve a pervasively competitive system in the United States." I remarked that "such a system seems to me far more compatible with political freedom than any of the alternative systems of concentrated control, either public or private, which has thus far been developed." I added, however, that I was trying "not to confuse my preference with the realities."

presented in the alphabetical order of the names of their authors. At the conclusion of the individual statements, I have appended a few observations designed to emphasize some of the highlights of the discussion. If they do not succeed in fulfilling this purpose I alone am responsible, as each participant in the symposium has responsibility only for his individual contribution, and for a generous willingness to let it appear as a part of a general discussion of the effectiveness of the federal antitrust laws.

Thurman Arnold

Arnold, Fortas and Porter, Washington, D.C.

The antitrust laws have not been effective in the real world. Therefore, the temptation of an academician is to substitute an administration which looks well on paper and compare it with the antitrust laws as they operate. This seems to me very naïve political thinking. My belief is that the only instrument which has a chance to preserve competition in America is antitrust enforcement through the courts. Traditionally we accept the courts as an institution which cannot be criticized or badgered as we badger an administrative bureau. A grand jury investigation can be conducted without public protest in a way that is impossible for an administrative tribunal to function. That is because there is a judge in a robe sitting over it. An administrative tribunal taking drastic action against a powerful political group cannot survive. We have watched the Labor Board swing too far under union pressure and then we see Congress destroying its public prestige and power. Under our tradition and habits you cannot do that to courts.

Theoretically, of course, there are many other ways to preserve a competitive system. You could arrange a tax system to regulate the amount of business which large concerns may profitably do. For instance, Fred Raymond has worked it all out along these lines in a book, which John Chamberlain endorses, entitled "The Limitist." However, my political guess is that we will not depart from the traditional ways of enforcing antitrust laws.

Unfortunately, all antitrust law enforcement under any plan depends on the public attitude. It does not make much difference what your instrument for carrying out antitrust policy is, it will not be effective unless there is a strong demand. There was such a demand when I was in office.[2] Today, in an economy entirely dependent on government spending we are sufficiently prosperous that there is little demand. However, I expect the demand to grow as the consequences of the present centralization of economic power make themselves felt in the business world.

[2] Mr. Arnold was Assistant Attorney General of the United States in charge of antitrust enforcement from March 7, 1938 to March 16, 1943.

Wendell Berge

Posner, Berge, Fox and Arent, Washington, D.C.

The antitrust laws have not stopped the trend toward concentration of economic power, which today is greater than ever. That concentration threatens our continued prosperity and, indeed, the very existence of what we think of as a capitalistic system. It also threatens our free political institutions.

Why have the antitrust laws failed in their basic purpose? In my judgment, it is because we have never really made an "all-out" effort to enforce them. The funds appropriated for antitrust enforcement have never been adequate nor has the enforcement staff ever been equal to the job. Often the will to enforce has been lacking.

I do not think that there is any fundamental weakness in the laws themselves, although, of course, implementing legislation is necessary from time to time. I think that in the Sherman and Clayton Acts we have the legal weapons which could be effectively employed to reverse present monopolistic trends, if we had the will and the resources to use those laws to the utmost.

Is there any reasonable chance that revitalization of antitrust enforcement will become a cornerstone of new national policy? The answer depends, I believe, on the extent to which independent business and the general public become aroused to the acuteness of the problem. The next few years will tell the story. There are some favorable signs, but it is too early to make any confident prediction. If we do not move toward vigorous termination of monopoly power over American industry, it seems to me inevitable that we shall find ourselves in less than another generation with some form of government-controlled and socialized economy.

Arthur R. Burns

Columbia University

Although federal antitrust legislation has been on the books since 1890, there is very little doubt that we have failed to achieve a competitive system at all closely resembling that which was in the minds of the economists of the last century and which provided the background for the legislation. The reasons for this failure lie partly in the forces within the economic system operating in a contrary direction to the legislation and partly to difficulties of achieving competition by law.

The primary pressure away from an organization of industry likely to operate competitively is the industrial technique of production. This technique often requires plants of considerable size for most economical operations. Where considerations affecting the most economical location of industry involve the scattering of plants throughout the country, local monopolies tend to develop from this cause alone. Even in other industries relatively few plants sometimes emerge as a result of efforts toward the most economical scale of operation.

The fact that a considerable part of the costs of industrial production are fixed (the proportion varying widely, however, from industry to industry) permits price-cutting of the short-run type to drive prices down sometimes to the point at which they cover only marginal costs well below average costs. The fact that the industrial technique also involves investments with a considerable physical life means that prices can stay at these levels for considerable periods. However desirable this situation may be in broad economic terms, businessmen, pursuing the profit motive, seek to avoid it. Where they are relatively few, they can pursue their interest by coming to agreements or by price leadership. Alternatively, firms may bring under common control plants at a number of different production points. Thus, the firm may be considerably larger than the plant of the most economical size.

In other circumstances, and particularly in the sale of consumer goods, there is a tendency to turn to the differentiation of products and the use of promotion expenditures, particularly on advertising. Consequently, considerations as to the size of the most economical distributive and promotional organization begin to affect the size of firms and again firms may be larger than the smallest plant capacity capable of production at minimum cost. Thus, there are various forces making for large firms and larger firms mean fewer firms. Tariffs tend to reduce further the number of sellers in industries which are effectively protected from foreign competition.

There has also been a number of forces operating to increase the size of firms by increasing the variety of their activities as well as the scale of their operations in any one activity. The resulting patterns of integration are varied. Vertical integration seems to occur sometimes as a solution to otherwise insoluble problems resulting when at some stage of production there are not only few sellers but also few buyers. During the last twenty-five years the organization of retailing in this country has been passing through a revolution, as a result of which numbers of small retailers have been replaced by large organizations which, in order to be large, are also territorially integrated. But the price competition which resulted at the retail level has brought forth efforts on the part of manufacturers to protect themselves from the direct or indirect pressure of price competition at the retail stage. In some industries such as oil, manufacturers have become integrated through to the retail level. In others, manufacturers have sought (in their own interest, or under pressure from that section of retailers which fears that it is about to be superseded) indirect methods of integration, more particularly through resale price maintenance contracts.

From the point of view of social control, the major question is why a law aiming at the suppression of restraint of trade and monopolies has failed to place an effective barrier in the way of many of the foregoing tendencies generated by the industrial process of production.

The most fundamental reason for the considerable measure of failure of efforts to erect such a barrier lies in the inadequacy of the economic theory underlying the legislation. Theoretically, perfect competition results in the ideal allocation of resources among uses; in a general tendency for costs to cover only the costs of the most efficient firm in the long run, and for full

capacity to be utilized except when the resulting prices fail to cover marginal costs of production. But the theory is internally contradictory in some circumstances. The lowest cost may be achieved only by firms so large that they are too few to behave competitively. A choice must then be made between (1) firms of the most efficient size but operating under conditions where there is inadequate pressure to compel the firms to continue to be efficient and pass on to the consumer the benefits of efficiency and (2) a system in which the firms are numerous enough to be competitive but too small to be efficient. The courts faced with this choice have been either unwilling or unable to decide between the two horns of the dilemma. The dictum in the United States Steel Corporation case that "mere size is no offense" seems to rest upon a choice of efficiency with whatever size it may involve. Irrespective of the facts in the case regarding the most efficient size for the corporation, the court was unwilling to obstruct businessmen in the pursuit of efficiency, whatever the result as to the competitiveness of the market.

Furthermore, had the courts been willing to choose the other horn of the dilemma, namely the maintenance of enough firms to insure competition, they would have faced further difficulties in the solution of which they would not have found economists very helpful. More particularly, the number of firms necessary for the maintenance of competition is a problem that has never been satisfactorily solved, and a firm operating under a ceiling as to size cannot be expected to be fully competitive.

Facing these difficulties, the courts have been unwilling to interfere where they could find plausible reasons for keeping out of complicated difficulties. They have often made their choice as to whether or not to interfere on the basis of a judgment of the motives of businessmen. The reason for this attitude lies largely in the belief that if the market tactics or merger policies under review seem to them to be aimed at the elimination of rivals as a means to attaining a monopoly, or where there is direct evidence of such motive, interference is unlikely to impede efforts to attain efficiency. The fact that some of the prosecutions have been under the criminal clauses of the law tends, for reasons of legal tradition, to place emphasis on the motives of those under indictment. While this policy is not in itself unreasonable, it has two fundamental defects impeding the attainment of competition. First, the determination of motive is extremely difficult and, in actual market situations, may be almost impossible. Second, motive itself is, from the economic point of view, secondary. Those who desire to see the antitrust laws enforced aim ultimately at the maintenance of a competitive structure whether it is threatened by people whose motives are good or bad.

Where oligopoly already exists, economic conditions have not by their nature compelled competitive behavior. The effort to maintain competitive behavior under these conditions seems to be doomed to failure. If businessmen choose price leadership as a means of avoiding price competition, no legal device has yet been discovered by which leadership can be prevented, except perhaps where it is based on collusion. There is no form of decree that can be addressed to a leader by which he can be prevented from being accepted as a leader. It would be more appropriate to address such a decree to

the price followers. But a decree preventing them from charging the same price as the biggest firm in the industry would not be feasible, and might also be rejected as unconstitutional. The same difficulties attend efforts to eliminate basing point systems. The firms in an industry may be ordered to cease and desist from the use of such a system, and possibly the non-base producer may be compelled to adopt a base price of his own. But it is not feasible to determine the height of his base price which, in fact, determines how nearly he remains a non-base producer. The requirement that producers sell to all buyers as a production point at a uniform mill price may eliminate competition by interpenetration of market territories but it remains to be seen whether competition in mill prices will be intensified, whether such prices will be lower than under a basing point system and the extent to which the delivered price of the product may be higher when demand in the vicinity of a producing point exceeds the capacity there. Economists have not been able to suggest any generally acceptable territorial pattern of prices.

Similar difficulties attend efforts to attack another important policy that has emerged from oligopoly, namely the price set and maintained at a stable level for considerable periods of time. Decrees to compel firms to change their prices from time to time are hardly feasible, because of the necessity for prescribing the frequency, and presumably also the amount of change that will comply with the requirements of the court. Here again the economist has been unable to establish criteria which would give the courts confidence in making such decrees.

If the courts do not accept monopoly or oligopoly, they are then faced with the necessity for determining the number of firms to be maintained in order to remove these conditions. In the past, they have from time to time broken up the almost single-firm monopoly but largely because they were persuaded that these monopolies had been achieved, not as the result of a quest for efficiency, but rather in the effort to achieve control of the market. Even so, they have never done more than replace almost unitary monopoly with oligopoly. If they did seek to eliminate oligopoly, they would encounter the difficulties already mentioned concerning the criteria as to the number of firms necessary for competition.

The courts have also been somewhat confused by repeated, and generally truthful, statements by business that it faces considerable competition. The difficulty here lies in the fact that competition or rivalry can take a great variety of forms ranging from the physical destruction of a rival's plant or products to pure price competition. Each of the available types of competition has its own peculiar consequences, some of them varying according to the nature of the industry. Only pure price competition can produce the results which most people have in mind when they defend what they call in general terms "the competitive system." Non-price competition by way of product differentiation and sales promotion operates to increase costs rather than reduce prices. But consumers may benefit to some extent from increased expenditures, particularly on product differentiation or quality competition. Consequently, judgment of these types of competition is extremely difficult. Here again the economist is unable to be very helpful to the court because

typically where an oligopoly engages in product differentiation and service competition, the buyer has no choice as between various combinations of price, quality, service, and the like.

The foregoing does not mean that the antitrust laws have had no effect. It is customary to say that they must have had some preventive effect. The probabilities are that this statement is true, although by its nature it is unprovable. Consequently, no measure of the preventive effect can be available.

The recent modifications of the antitrust laws give considerable general support to the court in its extremely cautious attitude regarding the disturbance of existing business structures and market behavior. The legalization of resale price maintenance provides an opportunity for businessmen to prevent price competition at retail. The court is justified, therefore, in believing that Congress is not determined to maintain price competition wherever it may occur and in this case in the market for consumers goods. State legislation imposing discriminatory taxes on chain stores can be interpreted by the courts as an indication that at least the state legislators are not in all circumstances ready to permit reorganizations of business producing greater efficiency as measured by costs. The Robinson-Patman Act regarding price discrimination rests in the main upon criteria of price discrimination drawn from much economic writing. Here again the courts must realize that this legislation is a part of the struggle between the older and newer organizations in distribution in which the older group sought protection from the state presumably because it was not prepared to rely on the outcome of competition. It is stated, however, that in these circumstances competition is not likely to produce the most desirable results because the very large buyer obtains advantages accruing not only from his cost-reducing opportunities but also from his market-control opportunities. While there may be truth in this statement, it has never been very satisfactorily documented and in practice it is almost impossible to draw a line between the two sources of possible price reduction.

Frank Albert Fetter*

Princeton University

In the tug of war between competition and monopoly in the United States, "the free competitive system" has on the whole, I fear, lost ground, but the end is not yet.

Among the influences tending to make the antitrust laws relatively ineffective are: the fundamental change in the business corporation laws beginning about the time of the passage of the Sherman Act, whereby it became legal for one corporation to acquire and hold the stock of another corporation,

* Dr. Fetter, professor emeritus of political economy at Princeton, died on March 21, 1949. Consequently, his part in this symposium constitutes the last of his many distinguished contributions to scholarly literature on the federal antitrust laws and their enforcement.

thereby pretty effectively defeating the purpose of that act; the approval by the courts of this mode of whittling away and destroying competition definitively in large sectors of the economy; the consequent limitation of the Sherman Act to the prosecution of explicit agreements in restraint of commerce, with the result, as has been repeatedly shown, of putting a premium on absolute merger, the most complete mode of abolishing competition; vague and ambiguous terms in the antitrust laws which, it matters not how they came to be there, have long been an insuperable obstacle to enforcement; the neglect by Congress to seek much needed aid of a technical nature in the framing of economic legislation; the pressure of organized special interests and skilled lobbyists in such legislation; the expenditure by corporations of lavish sums to defeat the enforcement of the antitrust laws, sums much greater than those spent by the government in their enforcement; and the extensive employment of academic economists in defense of monopoly. These are simply the main counts in the explanation of the relative inefficiency of the antitrust laws.

The most noteworthy influences tending to enlarge the possibility of free competition have been the utility investigation in the 'thirties; the holding company act; the creation and operation of the Security Exchange Commission, the more vigorous enforcement of the Sherman Act begun by Thurman Arnold and continued by his successors; the increased insight of the Supreme Court into the economic aspects of the problem; the recent basing point decisions; the activities of the Federal Trade Commission; and the awakened public realization that "a pervasively competitive economic system" is alone compatible in the long run with political freedom. This proposition is at least given lip service by many who still are striving to retain and increase monopoly control in their own industries, and thus are helping to dig the grave of a truly democratic capitalism.

We are listening to a great deal of naïve hypocrisy about the need to preserve our perfect system of free competition. Concentrated control has already gone far and is going farther.

Theodore J. Kreps
Stanford University

I am disposed on balance to agree that the antitrust laws, as interpreted and enforced, have neither stopped business aggrandizement nor preserved, in so far as it existed, a "broadly competitive system." I doubt whether by themselves they could have done so, even had they been fully enforced. It is certain that the amount of monopoly, whatever that may mean, is not less now than in 1890.

The antitrust laws probably have had more of a prophylactic than a remedial effect. The onward sweep of technological agglomeration has not been delayed. To avoid the risk and cost of antitrust litigation businessmen may, on occasion, have reluctantly dropped or modified highly cherished

plans or operations. No doubt the extra ingenuity required to revise old methods or devise new ones has been irksome. Even when they achieved their ultimate goal and purpose, they resented the fancied or real interposition of legal obstacles. A small but important percentage has been annoyed. Thus, periodically there has come into public print a rash of complaints about "vague uncertainties" in the act, lack of "positive definition," "arbitrary" enforcement activity, "unpredictable" court demarcations of the scope of the law, and the like.

But, by and large, most businessmen—that is, all but a small fraction of our 3,500,000 enterprises—have always realized that nothing in the antitrust laws forebade vigorous, independent competition. Like good pilots who safely bring their ships into port by knowing where the deep water is, the conscientious businessmen have not needed nor asked for blueprints mapping out every shoal of "non-permissible practice." They have simply gone ahead competing vigorously for customer patronage.

The squeaking axle, however, naturally gets the grease. Overwhelming in number as were the competing enterprisers, many of them operating on a large scale, the proportion of output produced, transported, and distributed by them was not commensurately large. Steadily in one industry after another, technological and financial giants captured more and more of the market. The few "million-dollar-trusts" that scared the public in 1890 look like pigmies now alongside the famous "two hundred" spotlighted by Berle and Means or the half a hundred or more billionaire corporations that dominate finance and industry today.

Such giants are not only found in banking, insurance, railways, public utilities and natural monopolies. Whatever may be the causes—technological efficiency, high finance, two World Wars, or what have you—more than a third of the total value of all products even in the field of manufacturing is produced in industries where the four largest producers account for over 75 per cent of national output. Almost another third is produced in industries where the four largest firms account for more than half, though less than three-fourths of total production. Nor is the movement limited to basic industries. Recent studies of mergers by the Federal Trade Commission document a widespread "swallowing up" of independent competitors in the textile, food, and distributive trades.

Clearly the antitrust laws have not preserved competition. In fact, it is doubtful whether during most of the period since 1890 Congress has actively so desired. While its oratory has been "agin monopoly," its acts have steadily exempted one industry or practice after another from compliance; farm marketing associations, labor unions, shipping, banking, etc. The legalization of price-fixing in the Miller-Tydings Act and the *carte blanche* given to railway executives in the Bulwinkle Act are but recent flagrant examples. But for the election upset, legalization of basing point and formula pricing and/or exemption of insurance executives might have come next.

Despite a quarter of a century of reiterated pleading from its Federal Trade Commission to close the loopholes in Sections 7 and 11 of the Clayton Act, Congress has done nothing to prevent merger by sale of assets. No

hindrance has been placed upon vertical and lateral integration. The "gobbling up" of competitors ravages on unchecked.

Congress has disregarded all suggestions to strengthen the law. One of its more important investigating bodies, the Temporary National Economic Committee, thoroughly examined and documented the case for many much needed improvements. It urged a statute imposing civil penalties which would deprive a monopoly of its monopolistic gains. This would have eliminated the humiliating spectacle presented in the Hartford-Empire case wherein the Supreme Court found flagrant abuse of patent privileges but felt constrained to let the violator in effect "keep the swag."

Congress has similarly failed to act on a number of bills, presented by such intelligent and far-sighted statesmen as Senator Joseph C. O'Mahoney of Wyoming, which would put teeth into the antitrust laws. Instead of the present piffling penalties, which are so low as to constitute at most a good business risk, Congress has refused to authorize fines on individuals and corporations that would genuinely deter deliberate and repeated violation—fines equalling, for example, half or more of the net profits earned by the corporation, or salary earned by the persons, during the period it was, or they were, violating the law. Some have suggested penalties upon convicted executives barring any organization in which they hold a responsible executive position from obtaining governmental aid, subsidies, tariffs, patent grants, purchase contracts, mediation or other benefits. Congress has not considered the matter.

Likewise, Congress has not required the registration of international cartel agreements. Were there a sanguine interest in devising means of buttressing the antitrust laws, there might have been resort to a number of other expedients such as taking the tariff off commodities produced under "conditions of oligopoly and monopoly," repealing the Webb-Pomerene Act, ratifying the ITO charter, revising the patent laws so as to prevent monopolistic abuses, fostering and mobilizing technological research nationally, and inaugurating a program of aid to small and new business. Such a program might be similar to that now operating in the field of agriculture, a program of diffusion of information, research and technical assistance, financial backing, and appropriately modified taxation. To all such proposals Congress has thus far turned a deaf ear.

Until recently the courts have also done their share in impairing the vigor of the antitrust laws. By emphasizing legalisms such as formal proof of "meeting of minds," they have struck down weaker and sometimes innocuous types of agreement between independent producers while giving a clean bill of health to corporate giants by such judicial inventions as the "rule of reason," and doctrines that "mere size is no offense" and "not existence but abuse of monopoly power must be proved." Thus a colossus such as the Aluminum Corporation of America, the classic example of monopoly, was allowed without even the initiation of government complaint (until 1937) to "stabilize prices," "adjust production to consumption" and "prevent market demoralization and chaos," while scores of tenuous arrangements between small producers in

and out of trade associations were struck down as conspiracies in restraint of trade.

The record of emasculation in *U.S.* v. *E. C. Knight Co.*, *Standard Oil Co.* v. *U.S.* (1911), *U.S.* v. *United States Steel Corporation* (1920), *Arrow-Hart and Hegeman Electric Co.* v. *Federal Trade Commission*, and similar cases is well known. Fortunately the record has been conspicuously improved in recent years by such notable decisions strengthening the antitrust laws as *Morton Salt Co.* v. *G. S. Suppiger Co.*, *U. S.* v. *Aluminum Corporation of America*, and in particular the opinion of Justice Burton in *American Tobacco Co.* v. *United States* (66 Supreme Court 1125, U.S. 1946). This case, according to Professor Rostow in his *National Policy for the Oil Industry* (p. 137), clearly means that henceforth

> Painstaking search for scraps of evidence with a conspiratorial atmosphere are (*sic*) no longer necessary. . . . Under the Tobacco case, the economic fact of monopoly is very close to being the legal proof of monopoly. . . . Parallel action, price leadership, a reliance on advertising rather than price competition as a means of inducing changes in each seller's share of the market and, above all, size—the market position of a small number of large sellers or buyers—these are now key points to be proved in a case of monopoly, or of combination in restraint of trade. . . . The decisive elements are the power to assert a degree of control over price and output in the market as a whole, and the power to deter or discourage potential competition.

Future decisions of the Supreme Court, may, of course, depart widely from the direction and outlines of Professor Rostow's interpretation, but if they do not, the impact of the antitrust laws upon monopoly may be substantial.

On the administrative side, except for the sincere and brilliant efforts of Thurman Arnold and Wendell Berge (under whose administrations more cases were filed and won than in the entire remaining lifetime of the antitrust act), over-all enforcement of the antitrust laws has been conspicuously weak. The federal government has been a policeman who looked the other way.

At no time have appropriations been remotely commensurate with the job to be done, nor have they ever been asked for. Even in 1939, the Anti-Trust Division spent less than \$800,000 and the Federal Trade Commission slightly less than \$2,200,000. In 1946, the sum-total appropriated for these agencies was still under four million dollars. A nation that spent more than 100 billion dollars in one year to defend its system of free enterprise against a foreign enemy devotes to protecting the system against monopoly less than enough to have financed its war effort for 25 minutes.

No wonder antitrust cases have not been pushed through with speed. In 1946, a sample of 41 out of 435 cases filed in the eight years from 1937-1945 showed four had been pending for more than seven years, and six for more than five years. Even the Federal Trade Commission which was given administrative powers precisely so that justice might be dispensed with dispatch, often requires over three years and has been known to take as long as eight years to push its cases to completion.

Coupled with lack of money, the major reason for these shortcomings is insufficient personnel not only in numbers but in competence. Both political

parties have observed long since that the persons likely to run afoul the antitrust laws are not the ordinary socially ostracized criminals but rather the more respectable, powerful and wealthy businessmen, those most likely to command not only dollars but newspapers and votes, and often indeed Congressmen. Zeal, initiative and resourcefulness in enforcing the antitrust laws are likely to be much more embarrassing virtues in an administrator than obsequious caution, meticulous solicitude for congressional and public relations, and indefatigable insistence that every protection of procedure or evidence be given the defendant.

Because of such stultification, particularly when intensified by witch hunts and by business-fomented contempt for "bureaucrats" and "tax eaters," lawyers and economists of integrity, objectivity and vigorous independence of thought usually prefer almost any type of employment to working for government. Those who plan to use government service as a stepping stone soon discover that skill and productivity in developing civil suits and criminal indictments (and what's worse, ability to make them stick) are qualities not highly conducive to making the "right friends" and influencing the "right people."

The effective and conscientious lawyer or division chief in antitrust agencies may find himself somewhat alone—first of all, in court. In the cement case there were three FTC attorneys pitted against 41 of the largest and most successful law firms in the country. In the Madison Oil case there were five for the government against 103 protectors of oil. Higher government echelons, moreover, may not be grateful for his contribution to their administrative headaches. He is also likely not to receive invitations to participate in those numerous important informal government-business policy get-togethers so indispensable to intelligent law-making and cooperative, effective administration. He thus finds antitrust activity to be attended with some measure of risk of damage to his reputation and career. These factors (plus in some cases social coventry or failure to "make" important social affairs given by the "best people" and higher-ups) cause high turnover of conscientous personnel at lower levels, while those too important to be let go even with a transparently flattering letter are often "kicked upstairs," sometimes graduated into judicial eminence.

There are, of course, a large number for whom government service is just a job. If they were too naïve to have realized the fact in advance, they soon learn that a high reputation among businessmen for constructive and understanding public service usually is acquired by excelling in those government activities through which favors are ladled out. It's a much shorter step into lucrative business posts and honorific university assignments from a War Production Board, Reconstruction Finance Corporation, or the Departments of War, Navy, Commerce, and State than it is from antitrust. Consequently, those who are ambitious and, needless to say, those content with a long, serene career in regulatory agencies, wisely follow the tactic of being spineless chair-warmers, never "sticking out their necks."

Even if personnel in the antitrust agencies feel sufficiently rewarded for their industrious activity by the consciousness of arduous duty done, there

are those in other governmental departments who do not fully share the glow. Violators of the antitrust laws often find many a sympathetic shoulder there to cry on. I know of no instance in which because of difficulties with antitrust, businessmen ever lost out on a government contract, research grant, subsidy, tariff or other favor. In some cases they have been given not only effective support but active assistance in building political backfires at both ends of Pennsylvania Avenue.

In too many instances such treatment of antitrust (as a competitor in the classical sense; one with whom one has no friendly dealings) is due not merely to normal bureaucratic preoccupation with intra-agency problems and inter-agency knifing. It also stems from the fact that Congress has imposed responsibilities the discharge of which is made difficult, if not impossible, except by "playing ball" with enterprises so large as to be enmeshed in practices contrary to the antitrust laws. During the war procurement officials would have been helpless without the active cooperation of big businesses. To whom else could research funds be allocated? In short, there are sometimes goals superior to uncompromising enforcement of the antitrust laws.

Precisely because "nobody loves the cop," antitrust agencies prefer to initiate cases on the basis of complaints. While only a fraction are acted upon, such cases are not only most likely to be easiest to win but to be most productive of political support and larger appropriations, with subsequent policing of the outlawed practice automatically enforced by business itself.

Unfortunately, there are many instances in which businessmen, all of them by no means small, are afraid to complain or refuse to testify and provide evidence, or do so only after making pitifully certain that guarantees of secrecy and anonymity are adequate. Monopolistic practices in such cases are often precisely the most vicious and strong. What can the administrator do? Forget about it? Challenge the powerful industrial police system? Or find a face-saving formula?

The most palatable solution is, of course, a maximum appearance of enforcement with minimum actual alteration in highly profitable practice. Hence the emphasis on legal victories which look good in annual reports and budget hearings, even though many are almost completely empty so far as the actual breaking up of a monopoly or the elimination in reality of that which was achieved by a monopolistic practice is concerned. It may be acute fear of making this discovery that accounts for the happenstance that none of the antitrust agencies has ever systematically followed up its cases to find out how far actual business operations had been changed. Frequently the only result, as Professor Rostow has indicated in the Socony-Vacuum and Ethyl Gasoline cases, is the invention of substitute legal devices leaving the basic monopolistic economic activity undisturbed.

It is easy to exhort the antitrust agencies to cut loose from the political support of those who dare to complain, and urge it to spend its limited funds for systematic surveys of concentration of economic power, industry by industry, and then to proceed to take action against the most important areas of concentration even though not a single congressman or other representative of the government has received a single complaint. It is easy to

find fault with antitrust for accepting pleas of *nolo contendere* and consent decrees, rather than fighting dissolution suits through to Supreme Court determination. The power of pressure groups being what it is, it is also futile.

In the organic sense of the term there is but little genuine support for enforcement of the antitrust laws. Certainly, buyers like competition among their sellers and *vice versa*. But it is not enough that a person want the antitrust laws enforced against other people. Does he support enforcement against himself and others in his industry? Or does he know a hundred and one reasons why monopolistic practices, while evil elsewhere, are nonexistent or harmless in *his* business? If the latter case, he cannot be said to oppose monopoly any more than a person who believes that all prices except his own are too high can be said to oppose inflation. Such groups—farm organizations, labor unions, retailers, manufacturers' associations, etc.—in short, all groups that tolerate only so much competition as they cannot prevent, believe, in effect, neither in the antitrust laws nor in free enterprise. They abet and foster monopoly and inflation.

Yet a coordinated policy designed to preserve and enlarge that which remains of a "broadly competitive economy" requires coordinated action throughout business, labor, agriculture, and government. President Roosevelt in his message on the TNEC, Senators O'Mahoney, Kefauver, Kilgore, and Morse in a series of antimonopoly bills, The Twentieth Century Fund in its studies on cartels and competition—these point the road most likely to achieve the goals of the Sherman Act.

For such a coordinated attack on monopoly, the first requirement is a coordinated, flexible adaptation of policy and tactics to over-all economic conditions and needs, which in turn requires a full-fledged Bureau of Industrial Economics serving as an economic intelligence agency for government as a whole. In a TNEC monograph on *Measurement of Social Performance of Business* I have suggested some vital functions and activities for such an agency, emphasized the indispensability of information, corporation by corporation, if a beginning is to be made toward successful enforcement of the antitrust laws. I have also outlined some rudimentary though as yet unsatisfactory methods for making a social audit of the performance not only of individual industries but of particular business corporations. The important fact, then as now, it seems to me, is not the size or number of producers but their social performance. It is not competition *per se*, but the benefits of competition, that is, maximum freedom of enterprise including freedom from the fear of abundance, maximum production at minimum real costs and prices, maximum real income and employment. What is the pattern of performance of the industry or business as a whole?

Such information is rarely sought and never presented, unless it should happen to buttress a particular point in the briefs of litigants in antitrust cases. Nor ought one to expect that it would be. Similarly the antitrust laws cannot be expected to provide the entire solution, or even a major portion. The unending fight to preserve as much as feasible of a democratically controlled, free enterprise economy is everybody's job, a continual struggle

in which every agency of business, labor and government must do its part. Not merely the antitrust laws and agencies but all of us are responsible for failure to "protect and preserve a broadly competitive system."

Edward H. Levi

University of Chicago Law School

I think there are three principal reasons for the relative ineffectiveness of the antitrust laws:

1. The courts are not sufficiently aware of the monopoly problem. As an aspect of this, the courts have not sufficiently considered size rather than the abuse of monopoly position to be the violation of the law. And as another aspect of this, they have tended to think that a finding of violation and an injunction against further monopolistic actions constitute sufficient relief. I believe that this point is the result of points (2) and (3).

2. The Department of Justice has never had a sufficiently sustained and energetic policy of enforcement. Enforcement is sporadic; vigorous enforcement is branded as witch hunting and is followed by a "period of reasonableness." One result of this is that the courts are not forced to face the problems of size in monopoly. Because there are so few monopoly cases, the courts are relatively uninformed as to economic conditions in key industries and the law itself does not develop as rapidly as it would if more cases were brought. Enormous gaps in the law are permitted to remain and this makes it much easier to have an ineffective enforcement policy.

3. Economists in general, I think, must bear a great share of the blame. The general impression of the public is that monopoly is inevitable and since it is inevitable, it is silly to try to prevent it. A variation of this is the popular opinion that it is childish to be against monopoly (perhaps because it is inevitable) and that, therefore, a monopoly cannot be said to be "bad" or a violation. In other words, I think economists have failed to distinguish between descriptions of our present economy and analyses of what can or ought to be done. Thus, even critical essays on the present state of the economy become a basis for a weak enforcement policy and for a lack of understanding on the part of the courts.

Ben W. Lewis

Oberlin College

In my judgment, the antitrust laws have made our economy much more competitive than it would have been in their absence. Furthermore, they can continue indefinitely to be so employed as to preserve a condition of more vigorous competition than we could otherwise hope to enjoy. On the other hand, the conditions of their application have been such as to make them less effective through the years and at present than they might have been. Some

of these conditions can be improved. I have come to believe, however, that the basic purpose we have sought to achieve through the antitrust laws is inherently incapable of accomplishment; that these laws now represent a rear-guard (albeit, a very important rear-guard) action; and that in the years ahead a considerable and increasing portion of our economy will come to be controlled through conscious public action (probably public enterprise) rather than by the "automatic" processes of competition bolstered by the Sherman Law.[3]

We are capable of doing a better job with the antitrust laws than we have done in the past. Probably they need statutory strengthening along the lines suggested by Messrs. Kefauver and Watkins at the December, 1947 meetings of the American Economic Association (see *Papers and Proceedings* of the Association, May, 1948, pp. 182-202; 204-8;[4] certainly the Anti-Trust Division needs more funds than Congress has ever yet seen fit to appropriate; and above all else enforcement of the laws stands to gain from any increase in public support, executive drive and judicial understanding that can possibly be developed.

But even if these measures should all be brought about—which I very much hope and very much doubt will be the case—it is my belief that the antitrust laws are inherently incapable of maintaining really effective competition. The *real* difficulty—the *basic* difficulty—in their application and enforcement is not to be corrected by statutes, appropriations or sentiment, sympathy and eagerness. It is simply not to be corrected—period.

The Sherman Act was put on the books in 1890; in 1948 we haven't the foggiest notion of the meaning of the Sherman Law as it relates to the prime organizational problem that has confronted our economy throughout the full life of the law—large-scale corporate industry. We are still playing guessing games with the Supreme Court. But, while it is easy to lay the blame at the door of the Supreme Court, I will suggest that if the Court has failed at any time to express accurately the intent of Congress, it has always been within the formal competence of Congress to change the law in line with its desires. But Congress has had no precise mandate or direction from the American public; and the public, in turn, has been given nothing but the most confusing advice from its technical experts—its professional economists. It's a tough problem—inherently tough—and just possibly the real reason why the interpretation and application of the Sherman Law is still muddled and uncertain (and is likely to remain in that state) lies in this fact.

It is my belief that "free enterprise," *as an economic system*, is breaking up. The most we can expect from the antitrust laws is that they will make the break-up and the transition easier to bear. I want better laws, better enforced; but no revision of the laws, no additional appropriations, and no hypo-shots of zeal in enforcement will be capable, in my judgment, of bolstering competition

[3] It may be, of course, that factors and forces other than the failure of the antitrust laws will operate more powerfully and immediately to produce this result.

[4] I participated in the discussion in question, and with the permission of the secretary of the Association use some of the material which I presented and which appears in the *Am. Econ. Rev., Papers and Proceedings,* Vol. XXXVIII, No. 2 (May, 1948), pp. 211-14.

sufficiently to warrant permanent reliance upon it as the central organizing and regulating force in our economic system. The way is effectively and permanently barred by the presence—the increasing presence—of large-scale industrial, marketing and labor units. We will not reduce their scale in any significant measure.

I do not argue that competition is absent from our economy; it is present and at times it may break out fiercely in the most unexpected places. But it occurs systematically and regularly only in a narrowing area; elsewhere it appears only spasmodically, when someone feels that, as a matter of policy or strategy, a spot of competition would be worth trying. This I believe will continue inevitably to be the case, conspicuously, in the basic, mass-production industries. It is quite true that many people and many firms are engaged in competitive activities, but the kind and extent of their competitive maneuvers are determined by the management of powerful industrial units who are largely free to indulge in as much or as little competition as they see fit. It is "cold competition," a game, without compulsions either in the event or in timing. Anti-Trust can annoy, but it cannot compel a systematic course of competitive conduct. Competition today is sporadic in its operation and unpredictable in its effects. It simply is not present in a form and degree that will justify continuing confidence in its capacity to perform the highly important duties which the logic of free enterprise requires it to discharge.

Competition has not been supplanted by complete monopolies engaged in spectacularly evil conduct; what we face is the quite undramatic development of conditions, short of monopoly, under which competition as a regulatory force is being rendered ineffective. Important economic decisions are not ground out by impersonal competitive exchange in an open and driving market; they are made quite personally, by men—relatively few men—whom we do not choose and over whom we have only the most tenuous controls. "Free enterprise" as we know it, and as we shall continue to know it until we harness it by forces stronger than any competition we can conjure up and sustain, is *really free!*[5]

Granted that many present-day corporations and corporate empires have been expanded beyond any point that can be defended on grounds of pro-

[5] The exact extent and degree of competition obtaining at any time in any industry, and the exact point at which competition in particular situations, or generally, becomes ineffective, are not matters of precise factual measurement. Answers here must be in the nature of value judgments. Obviously, these judgments do not occur in an atmosphere barren of facts. Facts bearing on the nature, causes and extent of industrial concentration (intra- and inter-firm), the determinants and limits of managerial policy decisions, the nature of business and financial practices and arrangements, the nature and effects of public policies—all of these contribute to the complex out of which the value judgment emerges.

In my own case, for instance, I am moved by the kinds of industrial, financial and marketing situations and arrangements analyzed in such studies as T.N.E.C. Monograph No. 21, those set forth over the years in Anti-Trust and F.T.C. proceedings, and those familiar to all of us who had an opportunity in connection with our N.R.A. and O.P.A. duties to review industrial policies and practices. None of this impresses me as "sensational," nor does any of it seem to me to "demand" immediate drastic public action; none the less, for me, it adds up to the convictions expressed in this paper. I am very much aware, however, that these convictions are value judgments.

ductive efficiency, I still believe that they cannot be reduced and broken up sufficiently to insure effective competition without exacting a greater price than we shall be willing to pay. The scale of industrial and marketing operations required to support us in the style to which we have (or should) become accustomed is still so large as to render the resulting "competition" quite undependable as the regulator of our economy. I can easily believe that technological developments now foreseeable by those with vision may in some industries make possible the attainment of optimum productive efficiency at scales of operation less extended than those currently thought necessary.[6] I hope they do. When it happens, I'll believe it. Until it happens, however, I am not willing to alter either my predictions or the policy conclusions which those predictions seem to me to establish. The scaling down of hitherto large-scale industry may come about in certain instances as the natural result of technological innovations, but the movement has certainly not yet begun in strength, and we would be quite ill-advised to force such a break-up indiscriminately across the industrial front by starry-eyed governmental action taken in anticipation of innovations which as yet are only guesses.

Recently it has been sought to inject realism into inquiries concerning the effectiveness of the antitrust laws by directing attention to the concept of "workable" competition. Competition in the actual world is recognized as being less perfect and precise in its operation than the unrealistic, classical, class-room concept of "pure" competition, but it is thought, nonetheless, to be doing quite capably the promotive and regulatory job which under the logic of "free enterprise" it is supposed to do. It works![7] The exact bounds and content of workable competition have not been authoritatively determined and defined, but it is suggested that competition is probably present and "working" in an economy such as ours which is characterized generally by progressive technology reflected in lowering prices, increasing output and new and improved products. The point is made that in appraising the effectiveness of competition we should not look to form and structure (the number and size of firms in the several markets, *i.e.*, the degree of "concentration"), but, rather, to market results. If prices, and the kind, quantity and quality of products are satisfactory, then competition is satisfactory; it is working. The conclusion seems to be that competition is "working" throughout most of our economy.

I am willing to accept considerable leeway and tolerance in the operation of competition (or any other regulatory force, for that matter), but I am not willing to judge its effectiveness or to decide whether or not it is workable and working solely or even largely on the basis of "results." Prices have been lowered, output is large, and there have been innovation and improve-

[6] See G. M. Blair, "Technology and Size," *Am. Econ. Rev., Papers and Proceedings*, May, 1948, pp. 121-52.

[7] E. S. Mason talks of workable competition in his contribution to this symposium and in his paper, "Competition, Price Policy and High Level Stability," at pp. 19-31 of *Pricing Problems and the Stabilization of Prosperity* (1947) published by the United States Chamber of Commerce. See, also, J. M. Clark, "Toward a Concept of Workable Competition," at pp. 452-76 of *Readings in the Social Control of Industry* (Blakiston, 1942).

ment in techniques and goods. But, unfortunately, these results do not tell the story. Results alone throw no light on the really significant question: have these results been *compelled* by the system—by *competition*—or do they represent simply the dispensations of managements which, with a wide latitude of policy choices at their disposal, happened for the moment to be benevolent or "smart"? This points up the real issue. The answer is of the very greatest moment for the future of our economy, and in seeking the answer the matter of form and structure (the degree of industrial concentration) is of foremost importance.

I will concede quite readily that we may enjoy immediately satisfactory prices and output even though competition is not perfect; indeed, I will go further. We may enjoy immediately satisfactory results even though competition is not "working," if the persons who make decisions are willing, in their wisdom or benevolence, to permit such results to trickle down. The absence of identifiable extortion or restriction does not, by itself, establish the presence of effective competition. For competition to be effective or workable, or even acceptable, in any significant, lasting sense, it must not only permit, *it must compel the results we want by the necessary and continuing operation of its processes.* The array of price and output policies from which managements are free to choose must be strictly limited. Satisfactory results which happen but which, equally, might not have happened are not good evidence of the successful working of an economic system or of competition as an integral part of an economic system. The *process* by which results are achieved and assured is the very essence of an economic *system.* As a consumer I like low prices, but to me competition is not "working" in an industry whose individual firms are powerful enough to hold prices down in the face of a general inflation. The immediate result is welcome, but I want the decision on prices to be made by society—either through the compelling forces of a competitive market or, if competition is not sufficiently workable to compel the decision (or the decision we want), then by action of a responsible government.

The key to the effectiveness of competition is to be found in its power systematically and predictably to compel economic decisions, and I do not believe that any such power or force characterizes the competition present in industries composed of, or dominated by, either a single firm or a few large firms. Such firms have the power to select their price and output policies from a wide range of possible action; neither competition nor any other force or combination of forces restrains or compels their choices except, at best, at the outermost limits. They are possessed, as well, of power to increase their defences against competition and to protect their positions. To speak of *potential* competition as a compelling regulatory force in this situation is to be blind to the strength of the factors that retard and will continue to retard the drive of potential competition to become actual competition.

Some indication of the looseness of the regulatory force of competition in mass production industry is to be found in the exhortations increasingly being delivered by economists, public officials and "enlightened" business leaders, urging managements to shape their price, output, wage and invest-

ment policies in accordance with long-run, over-all social considerations: increased purchasing power and consumption, full employment, an economy of plenty, etc. If competition, actual or potential, were really effective, these exhortations would be quite uncalled for and wholly useless. Need I add that as a prime regulatory instrument in our economy exhortations would seem to leave much to be desired? Something more certain in its promise and compelling in its force than an appeal to the good will and social consciousness of business leaders is called for in economic situations where sound criteria of individual and corporate gain run directly counter to sound criteria of general economic welfare.

Although the present discussion relates primarily to antitrust and industry, it is pertinent to note that developments corresponding to those in industry are under way in labor and agriculture. None of these is likely to be reversed. It could be, of course, that these groups will come to serve as checks upon each other, and that our economy in its movement away from dependence upon individual self-interest and competition will sometime emerge as a society of "responsible men" balanced in "responsible groups."[8] I note still another major development, however—big government—and my own *guess* is that we shall come increasingly to rely upon government (*i.e.*, upon ourselves in our collective *governmental* rather than our *economic group* capacity) to perform the economic tasks hitherto assigned to competition. Nor am I particularly disturbed by this; personally, I am not fearful of the democratic process and I do not doubt its ability to maintain its democratic character.

A final point, involving a different meaning for the term "workable": is competition any less "effective" than it needs to be in order to be "workable"? The suggestion implicit in this question is that pure and perfect competition is unsuited to the physical and economic requirements of modern mass industry with its specialized capital—that managements of these firms need great leeway, need freedom from the unreasonable, nagging restraints and dictates of the kind of competition appropriate to more primitive markets. This I can believe, but it seems to me to constitute not only a convincing explanation (and excuse) for the looseness of competition, but also a confirmation of the fact of its looseness—such looseness is inherent and inevitable! The fact that managerial action must be free (and, hence, *ought* to be free) from the frustrating hand of competition means simply that under modern conditions of production and marketing the kind of competition that will work so far as individual firms are concerned is quite unworkable as the prime regulatory instrument for the economy as a whole. The freedom of action needed by modern management, if its search for individual security is to succeed, is so great that whether because we fear its misuse or because we value our self-respect, we cannot properly leave it, unrestrained, in private hands.

What we want in a democratic economy are compelling forces that will drive individual activity systematically and predictably within narrow channels named and approved by society. Social responsibility must attach to

[8] See J. M. Clark, *Alternative to Serfdom* (Knopf, 1948).

individual economic decisions: economic decisions must be made under such conditions that lines of responsibility and control run from those materially affected by the decisions to the persons engaged in making them. Under the classical logic of free enterprise social responsibility was assured by the presence of competition; under modern conditions of mass production competition cannot, and cannot be made to, give us the assurance we need.

Let me make my indictment quite clear: I am not undertaking a shotgun attack on all of the inequities and shortcomings of our present way of economic life. Neither am I suggesting that our present way of life doesn't furnish quite a lot of us with quite a lot of relatively secure comforts. Indeed, it is part of my thesis that the economic ease which we are currently permitted to enjoy serves to insulate us from any considerable awareness of the loosening processes at work within our economy. My charge relates to the dilution and weakening of competition as a compelling regulatory force, and the consequent growth of irresponsibility in the making of economic decisions; and to the disintegration of free enterprise as a system which this development reflects. Irresponsibility as an abiding feature of an economic system is not made palatable by the fact that the power it represents is not always misused, and disintegration is no less real because it is cushioned and draped.

We need the antitrust laws, refurbished and refueled. But we shall need more—a lot more.

Irving Lipkowitz

Reynolds Metals Company, New York City

The antitrust laws are at best a negative means of promoting competition. Their province is limited to the violations of law. As a consequence, they can deal only with the wrong-doer, and only in so far as the wrong is recognized by law and satisfactory evidence against the culprit can be obtained by the law enforcement agency and presented to an appropriate court. Law enforcement by itself, no matter how broad and competent, can no more do the whole job of establishing and maintaining a competitive system than it can produce harmonious relations between labor and management.

Half a century ago, when the basic pattern of the antitrust laws was fixed, it might have been enough for government to be merely antimonopoly. Perhaps in those days the government would have had merely to eliminate the specific abuses of monopoly power in order to give competition a fair chance to develop and thrive in most industries. Whatever the situation was then, today much more than that is needed if there is to be real competition in most of the key industries. Many of the obstacles to unrestrained competition are "legal," and therefore beyond the reach of the government's antimonopoly laws and agencies.

Healthy and productive competition is a way of business life, not merely the absence of illegal monopolies. Like democracy, it must be cultivated. It does not come naturally to all businessmen and does not survive or maintain

itself with equal ease in all industries. If our economic system is to be more effectively competitive than it is now, the government will have to promote such competition by more direct and positive means than mere law enforcement.

A government agency, sufficiently endowed with authority and appropriations to attract competent personnel, should be created to promote competition. It should not be the traditional "small business" clique. All big business is not automatically monopolistic, all small business is not necessarily competitive. This procompetitive government agency would not have the responsibility for enforcing the antitrust laws. That would still be the function of the present antimonopoly agencies. However, like any other government agency, it would refer to the Department of Justice any violations of law which incidentally come to its attention.

The first task of this agency would be to find out what is the state of competition, and conversely of monopoly, in each of the important industries. Where it found that competition was weak, it would then have to decide how desirable it would be to stimulate or promote greater competition in that industry. If the decision were in favor of stimulating competition, then a thorough diagnosis would have to be made to determine the best course of action. In one case the problem might be financing, in another patent or technological pools, and in the third case the advantages which the dominant company might get from a highly effective intensive advertising campaign. In some cases this agency might find the government can do nothing to establish competition in an industry unless it is willing to subsidize some of the "competitors" ad infinitum.

At each stage in its analysis the procompetition agency should make its findings and recommendations public and understandable. If nothing else, this agency would tell the country how much or how little competition there is, in what industries, and what—if anything—could be done to improve the situation.

This agency should be left free to recommend any course of action which it deemed most practical for the particular situation. In one case it might require no more than internal rearrangements within the industry without any further government intervention. At other times this agency might find it necessary to seek special government financing for the less powerful members of an industry. Or, its program might be so drastic and the industry so important as to require Congressional review and approval. Under no circumstances should the procompetition agency be required to limit its remedies to just those which could be handled through court procedures or consent decrees.

Will such an agency be so powerful as to jeopardize free enterprise and democratic processes? No, because its power will vary from industry to industry, directly with the strength of monopoly and inversely to the degree of competition. Its decisions should be subject to review by a board of competent representative citizens which should pass on any challenged facts and on any charges that a particular recommended remedy is too harsh. How far

such an agency would be permitted to go in a particular industry would depend on how anxious the nation was to have that industry more competitive.

There are probably many different ways of achieving what the procompetition agency outlined above is intended to do. But in any case the approach must be that direct and positive. The difference between promoting competition and antitrust law enforcement is the difference between a Tennessee Valley Authority directly stimulating the greater use of electricity and a state regulatory body trying to do the same through rate-making procedures. The government should concentrate its efforts on getting an industry to do the right things more often and not confine its efforts to restraining or punishing the wrongdoers.

If the traditional antimonopoly approach is to prevail, however, then the antitrust agencies should have as broad powers and extensive facilities for watching and intercepting the flow of commerce as police departments have with respect to the flow of vehicular traffic. Lacking such powers, these agencies should not be held responsible for the defective flow of commerce.

The powers of the antitrust agencies to get essential facts about conditions in a particular industry should not be limited to the subpoena rights of a litigant. Every investigation does not presuppose a lawsuit. Moreover, the standards of proof in a monopoly case should not be the same as when a human defendant's life is at stake. In actual practice, the more powerful the monopoly, the more difficult it is to get the evidence necessary to convict it. The more dominant a monopoly is, the more reluctant businessmen are to testify against it—for fear of repercussions. An all-powerful monopoly rarely finds it necessary to lay down the law, orally or in writing, to its would-be competitors. The anomalous result is that the more evident the monopoly, the less evidence the government can obtain. Only when the monopoly lacks full control does it have to threaten and take the kind of actions which are the makings of a successful antitrust action.

The courtroom processing of antitrust cases can also be improved greatly. Specialized courts are needed, staffed with a judiciary well versed in the complexities and realities of business practice. Such judges would then be in a position to adapt the rules of evidence to accelerate the presentation of business facts without sacrificing the quality of proof.

Essentially the lack of adequate governmental machinery for guaranteeing the nation a competitive economic system reflects the indifference or hostility of both organized business and organized labor. Of course, within each industry both groups want to get the benefits of competition in other industries, but do not want to give others the benefit of competition in their own industry. Any program for making our economic system more competitive must therefore start with a campaign to get industry and labor groups to support actively specific proposals to promote competition and to make antimonopoly drives more effective.

Edward S. Mason

Harvard University

The great difficulty in answering the question you raise lies in the interpretation one is to put on the phrase "broadly competitive economic system." There are at least two sources of confusion: (1) is competition to be understood strictly in the market sense of the term or does it also embrace considerations having to do with the structure of the *political* economy, *i.e.*, concentration of economic control?; and (2) in so far as attention is concentrated on competition in the market sense, how does one measure departures from competition, *i.e.*, the degree of monopoly.

1. When people speak of a decline of competition, they frequently are thinking of such phenomena as the rise of the large corporation and the relative decline in the importance of sectors of the economy associated with small scale enterprise, *e.g.*, agriculture, which may or may not have anything to do with competition in the market sense of the term. One way of characterizing the phenomena they have in mind is "concentration of economic control."

There are various ways concentration may be measured, each of which has its own significance. Among them is a number of employees per business unit. It is, of course, obvious that the ratio between the number of business units and number of employees is continually declining as a result of the continued shift from agricultural to industrial employment, the relatively rapid growth of sectors of industry characterized by large-scale enterprise, and the increase in the size of the optimum unit in almost all branches of industry.

There is, furtherfore, little doubt that this changing ratio of number of firms to number of employees has great significance for the functioning of the *political* economy. It affects the location of political power, the character and size of pressure groups, employer-employee relationships, etc. It is certainly true that it is changing the character of American democracy and it may be true that it threatens the continued existence of democratic institutions.

But it has no necessary or even obvious connection with competition in the market sense of the term. No one has been able to show as yet that monopoly is more important in the economy than it was fifty or one hundred years ago or that competition has declined. Partly this has to do with ambiguities in the interpretation of competition and in difficulties connected with the measurement of departures from competition in whatever sense the term is used.

2. The most precise notion of competition is pure or atomistic competition but this is (a) a limiting concept in (b) a purely static analysis. Although it is possible to measure *conceptually* departures from pure competition in various ways such as ratio of price to marginal cost, ratio of actual to competitive profits, ratio of actual to competitive output, etc., each of these conceptual measures is firstly only a partial measure even on its own terms and assuming static conditions, and secondly, is not susceptible to statistical application.

Moreover, this whole conception of competition and monopoly is purely static. In the American economy new products, new techniques, new locations, changing consumer tastes, etc., are continually breaking the existing patterns of market relationships and forming new ones which in turn emerge only to be broken. How is this process to be fitted into conceptions of monopoly and competition? No one has as yet provided any satisfactory answer.

In default of answers running in terms of the degree or extent of departure from pure competition people have recently sought an answer to the question whether various industries are or are not "workably competitive." Presumably this notion fastens attention on the *results* of a particular market structure. Is the existing set-up accompanied by a progressive technology, the passing on to consumers of the results of this progressiveness in the form of lower prices, larger output, improved products, etc.? Although there is a certain attractiveness to this conception, it must be admitted that no one as yet has given it any precision. Whether a given industry is judged to be workably competitive will depend to a very substantial extent on the "ideology" of the judges. And who is to say in these terms whether the American economy is or is not more "broadly competitive" now than it was in 1890?

Whatever answer is given to this question, I believe myself that the American economy is in fact substantially more "workably competitive" than it would have been without the existence of the antitrust acts. This is due, I believe, not so much to the contribution that particular judgments have made to the restoring of competition as it is to the fact that the consideration of whether a particular course of business action may or may not be in violation of the antitrust acts is a persistent factor affecting business judgment, at least in large firms.

It is frequently stated that the greatest defects of antitrust policy are in handling the monopolistic or monopsonistic bargaining power of the large firm and the problem of mutual interdependence which may exist when a few large firms are predominant in a market. This judgment, however, usually will be found to emanate from those who have a static approach to the problem of monopoly and competition. Until it is clearer to me than it is now (a) that the large firm in the presence of manifestly dynamic influences exerts an adverse monopolistic influence on the functioning of the economy and (b) that any possible action under existing (or a modified) antitrust policy would remedy the situation, I have my fingers crossed.

Breck P. McAllister

Donovan, Leisure, Newton, Lumbard and Irvine, New York City

I would group my impressions as to the effectiveness of the antitrust laws into two quite separate and distinct categories.

First, I think of effectiveness in terms of a police agency prepared to deal with ordinary police functions. In this category I include such important matters as price-fixing at any level of trade, and what often goes with that,

efforts by trade groups to fix and maintain particular channels of distribution. On this last point I have in mind efforts such as those of a wholesale group to prevent manufacturers cutting them off by selling direct to retailers, efforts by a retail group to prevent manufacturers from selling direct to consumers, and combined efforts of both kinds of groups to the same end. In short, I have in mind any effort at cartelization or stratification of the distributive channels. In this category you find not only efforts of these groups to maintain their status but also efforts directed towards price control.

As to the general effectiveness of antitrust as a police force in this important category of cases where there are no questions of uncertainty as to the law and the criminal process is generally used, it is my impression that on the whole we have, to a considerable extent, prevented our economy from crystallizing after the manner of, let us say, the British economy. We have not, however, been entirely successful. One failure grows out of the successful effort of the trade groups in question in our legislative halls, both federal and state. In this connection I have in mind particularly the so-called "fair trade laws" and "unfair practice acts" in the state legislatures, together with the Miller-Tydings Amendment to the Sherman Act. In short, we have an important degree of disagreement as to the direction which our public policy should take.

The efforts of Anti-Trust have also been hampered in varying degrees throughout the years through lack of adequate appropriations and personnel. The remedy here is plain and I should like to see it applied by the Congress. I know of no reason why, if adequately equipped, Anti-Trust could not be an effective instrumentality to maintain an adequate play in the joints of our economy in the area I have indicated. In fact, it seems to me that over the years much has been accomplished, and as we look at our economy and contrast it, again with the British, we find that the distributive trades are in a position that I, for one, would describe as a broadly competitive system.

You will notice that in this category my emphasis has been upon the distributive trades but I include in this category manufacturers in so far as their activities are directed to the ends I have indicated.

My second category is a category of a quite different sort. Here I am thinking in terms of the effectiveness of our antitrust laws in checking bigness. We have bigness and lots of it in many important industries. If I detected in your letter the assumption that one of the objectives of the Sherman Act was to make small business out of big business and keep business small, I would question this assumption. Put in another way, I do not think it was the objective of the Sherman Act to keep small business small. Throughout our economic history since 1890 we have had lots of small businesses that have become big. Henry Ford is an example that comes to my mind quickly. Many more exist in our important industries, new and old. Looking at this same problem from another point of view, you come to the question, how big may these enterprises be allowed to become before

they transgress some rather ill-defined notion of public policy? Any effort to answer this question will, of course, bring up a large set of questions with which I am not competent to deal.

It seems to me that your inquiry suggests that in some way Anti-Trust has been ineffective in keeping small business small or, put in another way, keeping big business from getting too big. In this category the problem that confronts Anti-Trust is tremendous and it should not be surprising that we find ourselves with big business in many important industries. I do not want to attempt to state in a few short sentences why business is big. That is a study in itself and it is a study that must take account of important technological and economic factors. Would we have better and cheaper automobiles if we had 100 little businesses making them? A question such as this might be asked as to a great many industries and the only meaningful answer would be one that came from a careful study of that particular industry. The answers might be quite different in different industries.

Another important aspect of the problems in this second category is the question of the effect of bigness on price and other competition. I dare say the economists are having great difficulty in analyzing the important effects of bigness on the traditional economic thinking as to supply, demand and price and the many other important manifestations of competition. I can only give you the impression that I have from close observation of the behavior of a few industries and the effect of the enforcement of our antitrust laws. It is my impression that today, more than ever before, our business leaders are aware of Anti-Trust and take account of public policy as it crystallizes from time to time in Anti-Trust and the decisions of the courts. The days of the ruthless business leader are over—and have been for some years.

I also think that it is too simple an assumption to make that because there may be only four or five companies in a given industry that, therefore, price agreements and other activities of that sort are in full swing. Bigness has its problems and plenty of them and it has important responsibilities in its industry. I am in no position to say, from the point of view of the consumer, that we would have better goods at lower prices if we had more and smaller companies in a particular industry. From the point of view of the labor leader, it is quite possible that in some industries only bigness will make it possible to have an adequate wage and a lower price to consumers. In another industry smallness as against bigness may be irrelevant. The answers to these questions might be "yes" in one industry and "no" in another and both answers would have a lot of guesswork in them. Our public policy is ill-defined. Our thinking, too often, is in terms of what to do about bigness rather than in terms of the objective of our impressive economy.

Harlan L. McCracken

Louisiana State University

If one were to ask me why our antitrust laws and enforcement had been of almost no avail, I would say that it is due primarily to the "Fourth Division of Government," namely lobbies and pressure groups. Every combination which desires to restrain trade constitutes a terrific pressure group. Witness the silver bloc, the farm bloc, the real estate lobby and the ever-present pressure from steel and aluminum.

This is the real and basic problem. All pressure groups desire benefits and special privileges for themselves, regardless of their general effects upon the national economy. Also, they are shortsighted and seem always to be working for a temporary *boom* even if it is pretty clear that the long-run results will be a *bust*.

Some have thought that we will have to organize a "consumer pressure group," seeing to it that it has a very large membership, a good treasury, and strong officers so that every time a small bloc presses for class legislation this large consumer group can force legislators to work at the issue from the national point of view and from the population as a whole. Without such an organization with officers and a treasury the case against blocs and pressure groups usually always goes by default.

From the economic standpoint I see no fundamental reason why we cannot restore a reasonable and high degree of competition if we want to. For example, we know there is a powerful connection between protective tariffs and trusts. Yet tariffs are man-made and can be unmade by man. There is no economic or logical defense for trying to strengthen an industry like steel or aluminum by giving it a protective tariff and then trying to weaken it by antitrust prosecution. I would, therefore, propose that wherever we find combinations restraining trade against the public interest we examine the tariff; and if they have been made immune to foreign competition by a tariff and immune to domestic competition by a trust, then I would say that the first step should be a sufficient reduction in the tariff to force foreign competition. Of course if it be an international cartel, then we would need to take direct legal action.

The difficulties of restoring a high degree of competition are almost wholly political and not economic or legal. Antitrust laws can be enforced where there is sufficient *will* to enforce them, and competitive enterprise can be made to succeed if given the proper opportunity and environment.

George Nebolsine

Cahill, Gordon, Zachry & Reindel, New York City

Your letter raises a question of considerable importance today—as to whether the Sherman Act, enacted prior to development of mass-production techniques, the invention of the automobile, the radio, synthetic chemicals

and the development of atomic energy, and reflecting the philosophy of the mid-19th century economists, has served to preserve a competitive system. I shall express my views briefly and ask you a question in turn.

Certainly, the conception of competition has been modified in respect to public utilities, carriers, and a host of economic endeavors which have come under government regulation. It is the current thesis of some economists that the alternative to the widest kind of competition—indeed, of atomization of industry—is government regulation of industry generally. I cannot concur in this view, since with a few (and very deplorable) exceptions nothing approaching the pure competition of atomized economic units as laid down by 19th century economic thinking has ever existed in industry. On the contrary, there has evolved, through trial and error and under the Sherman Act, a very great industrial expansion, the competitive behavior of which squares neither with the theories as to pure competition nor with the theories of monopoly behavior. There has taken place in industry generally in the last forty years amazing progress—through innovation, improved quality of product and of services rendered in connection therewith. Except for postwar distortions, there has been a general decline in prices of many manufactured articles. Labor conditions have improved.

There have been times in almost all industries when increase in unit size has been essential for efficiency and when cooperation among industry members at technical, marketing and financial levels has been essential to progress. Much of the concentration or cooperative endeavor that has taken place in response to economic needs has resulted in advancing the public interest.

As I read Dr. E. G. Nourse and Dr. Leon Keyserling, and other contemporary economic authorities, I find that an important trend of economic thinking points in the direction of making over-all economic *performance*, rather than *structure* of enterprises the main—if not the decisive—test of the public interest as applied to industry.

Such a view of the situation does not lead to the repudiation of the principles of a free market or the repeal of antimonopoly laws or the encouragement of monopolistic practices; it does suggest a more realistic view of the varied problems of industry than could be gained from thinking about competition in the abstract and by finespun interpretations of the three lines of Section 1 of the Sherman Act.

There is a suggestion in your question that the antitrust laws have been *ineffective*. I disagree with this: I believe they have been very effective. The economic structure of the United States, though far more advanced technologically than that of other countries, has greater potentialities of intra- and inter-industry competition within it than foreign industry structures which escaped the influence of the antitrust laws. Our competitive structure is an asset in our economy and we should preserve it wherever it can subsist. But we should not expect the *form* and *structure* of industry to reflect primitive technology. We should not seek to artificially create multiplicity of units through atomization of industry without regard to technological and market requirements. This would be a retrogressive step, out of keeping with economic needs.

The Supreme Court in the recent case *U.S.* v. *National Lead* refused to divide up the two companies engaged in the industry. The court invoked the tests of necessity, practicability and fairness of divestiture of plants. It stated that there was no showing that four major competing units would be preferable to two, or that six would be better than four.

The question posed by the Court is a challenge to the advocates of atomizing industry. Is it demonstrable that four competitors are preferable to two? Does it make any difference to the answer if the two are equally advanced technologically and are well-capitalized concerns that have enlarged their plant and improved the product? What if the alternative is a "sick" industry composed of competitors that can barely get along and are not in a position to introduce revolutionary improvements in the manufacturing process or to establish a product of high reputation in the market? In other words, is the test of the public interest performance or form? I do not think we can have it both ways.*

* I replied to Mr. Nebolsine's questions as follows:

You asked me for my opinion as to whether or not four sets of competitors are preferable to two, under various sets of circumstances which you state. I am glad to give you the best answer I can to that difficult question. My answer is that, in the interest of maintaining a broadly competitive system, there is a presumption in favor of having four rather than two competitors, and six rather than four.

As I see it, this presumption should be upset only when there is an affirmative showing that continuation of the larger number of competitors is resulting in failures such as those to capitalize fully the advantages of large-scale production or, as you suggest, is resulting in a "sick" industry composed of ill-balanced competitors, incapable of introducing revolutionary improvements in the manufacturing process or establishing a product of high reputation in the market.

I am not altogether sure that the desirability of having a broader competitive base would not justify foregoing full exploitation of the advantages of large-scale production. This, I take it, was the position taken by the National Association of Retail Grocers at their recent convention when, by inference, they favored the elimination of quantity discounts to "a small number of giant corporations" even though they could be justified in terms of the saving affected by handling the large quantities involved. In terms of maintaining a safe base of political democracy, which is my central interest in the antitrust laws, I can envisage some advantages in such a policy but I do not now embrace it. However, I do think it is demonstrable that four competitors are better than two unless having the smaller number clearly results in technological and economic gains of the sort you mentioned.

When there are two competitors rather than four, the chances of collusion about prices and production are obviously much increased. While I think too much emphasis is generally placed upon the conspiratorial impulses of the business community, I do not think these chances should be ignored. Likewise, in the complete absence of any collusion, the chances that a monopolistic course will be taken in the "follow the leader" pattern are increased when there are only two competitors.

If the heads of the two surviving firms were the hard-driving, fiercely independent type of businessman who has played such a large part in the industrial development of the U.S.A., two of them would be enough to create a ruggedly competitive situation. But if the two were of the genteel, clubby and inclined-to-take-it-easy type which is also known in the high reaches of American business, two companies might get together and tend to sleep together indefinitely. When the number of firms involved is small, the chances of having the industry animated by vigorously competitive leadership also seem to me to be relatively small.

Beyond those which I have mentioned there are, I believe, many other advantages in

George W. Stocking
Vanderbilt University

I believe the chief reason the antitrust laws have not been more successful is that no politically powerful economic group wants them to be generally enforced. This is partly due to ignorance and partly to vested interests. But regardless of the reasons neither big business, nor labor, nor the farmers believe in a free-enterprise system. A paraphrase of Pope expresses the trend in public attitudes.

Monopoly is a monster of such frightful mien
That to be hated needs but to be seen (Sherman Law 1890)
But seen too oft, familiar with her face
We first endure (Rule of Reason 1911; *U.S.* v. *U.S. Steel Corporation,* 1920), then pity (Federal Trade Commission trade practice conferences and codes; trade association activities, etc.), then embrace (NRA).

Big Business has failed to distinguish between free enterprise and private enterprise and apparently is unwilling to admit that the former is essential to the preservation of the latter. Whether this is due to ignorance or hypocrisy does not affect business' stubborn insistence that it must be left alone. The most recent illustration is the National Association of Manufacturers' characterization of the Federal Trade Commission's recommendation for amending Section 7 and 11 of the Clayton Act as a witch hunt.

Labor professes to oppose business monopolies, but shouts to high heaven against any proposal to curb its own monopoly power.

Farmers have become so used to subsidies for output restriction and destruction that they regard them as constitutional rights.

Under these circumstances not the failure of antitrust but the basic vigor of competition is amazing. Between 1911 and 1930 the oil industry's monopoly had been transformed into competition so ruinous that the states stepped in to forbid it. Between 1897 when the Supreme Court came to the rescue of the sugar trust (E. C. Knight case) and the late 'twenties sugar refining had become highly competitive—American control having declined from 97 per cent to about 40 per cent—and the industry was "demoralized" by "ruinous" competition.

Bear in mind that the technique of competitive readjustment is ruin and bankruptcy, but among modern social groups nobody wants to be the sacrificial lamb even for the good of the tribe.

If we really wanted a competitive economy it would be necessary to:

1. Revise our patent laws so as to give venture capital easier access to modern technology.

having more rather than fewer competitors. I trust, however, that I have successfully argued that the strong case for having four rather than two competitors can only be upset by a clear showing that the lesser number is absolutely essential to realize the advantages of mass production, or to overcome otherwise inescapable economic weakness. It is my impression that the showing in question is more often assumed than made.—D. M. K.

2. Prohibit mergers so as to make business firms as small and numerous as is consistent with the economies of mass production.

3. Require federal incorporation for firms the assets of which exceed a specified minimum and which do business in interstate commerce, and limit the use of the holding corporation.

4. Supply more adequate funds for the enforcement of antitrust. Eternal vigilance is the price of liberty.

5. Curb labor monopolies. Specifically, prohibit industry-wide bargaining. The ideal unit of bargaining would probably be the firm and the size of the firm would be limited in accordance with the principle set forth under (2) above.

6. Lower tariffs.

7. Through monetary and fiscal policies, stabilize the general price structure; but leave individual prices to seek competitive levels and perform their proper function of allocating resources and distributing income.

8. Curb monopolies of prestige created by advertising where the main effect is to increase costs by diverting customers from one product to a substantially similar product. This might involve limiting or taxing advertising expenditures, government grading to prevent misleading advertising, or service by a Bureau of Standards like that of Consumers' Research.

In brief, it would be necessary to create an environment conducive to the operation of a free economy. If we could solve the problem of industrial stability, *i.e.*, insure an expanding economy, the readjustments in use of resources which competition would require would be relatively painless.

This obviously is a big order and while the broad goal is generally attractive—a maximization of economic freedom, a high level of employment and income, and economical use of productive agents—its specific objectives encounter serious obstacles on every hand.

Myron W. Watkins

New York City

Viewed from the standpoint of the goal at which the antitrust laws aimed (the past tense is deliberate; it's difficult to say what they aim at now, particularly after the Miller-Tydings amendment!), the accomplishment has been meager, I agree. But if one were to speculate on where we would have come out without antitrust, he could hardly conclude that the results have been negligible. Even more industries under the thumb of big business, even more gigantic mergers than those we know, and an even tighter web of collusive restrictions than enmeshes us, these would be our lot. A quarter of a loaf is better than none; but it's not as good as half a loaf!

The explanation of the shortcomings of antitrust, however big or little one regards them, is complex and the ranking of the factors depends on the way one frames the problem. Some people might be content with an explanation that ran mainly in terms of public apathy. Others might find the chief

cause in business obtuseness, callousness, or cupidity. Still others would probably put the principal emphasis on technological "resistance."

For myself, a more significant explanation would be one that took each of these factors as a datum, simply phases of the assumed conditions that serve as a point of departure for the inquiry. Given *some* public indifference, given *some* business obstinacy and trickiness, given *some* technological obstacles, why has antitrust been less effective than it might have been? So framing the issue, the courts, the Congress, and the executive all have a good deal to answer for; and considering the possibilities of independent, constructive action I would distribute responsibility in about that order. In a whole string of cases from the Knight fiasco through Oil and Tobacco, American Can, Shoe Machinery, Steel, Harvester, Swift, International Shoe, to Alcoa, either a different judgment or a different decree might have shaped a different structure for American industry. The significance of Knight, Steel, and International Shoe, for example, reached far beyond the position of the immediate defendants.

Moreover, if judicial interpretation and application of the antitrust laws had been bolder and more clear-sighted, I have a strong feeling that Congress would have been less lethargic. A more constructive judicial record would, I believe, have encouraged Congress to push forward (as it did feebly in 1914 after the *outward* "success" of 1911) on the path of supplementation of antitrust policy. Such a development was indispensable, if antitrust were to become something more than folklore. Patent law, trade mark law, fiscal law, corporation law, in these and other fields, but pre-eminently in these fields, Congress has done nothing, where it might have done much, to bolster antitrust. Indeed, it is hardly too much to say that in each of the fields mentioned Congressional inaction—failure to support antitrust—has been tantamount to sabotaging it.

Bethuel M. Webster

Webster, Sheffield & Horan, New York City

I do not agree that the antitrust laws "have done relatively little since 1890 to protect and preserve a broadly competitive system," or that the results have been negative. It is my view that, while business has grown and flourished under the antitrust laws, it has grown and flourished to a very large extent in a competitive atmosphere. For example, despite the 1941 convictions at Lexington, the tobacco industry, operating under the stringent decree made in 1911, puts out a fine product at low cost in a highly competitive market. One needs only to read the ads or listen to the radio to know that there are four or five major companies and several lesser companies engaged successfully in the struggle for business. The same is true of automobiles, movies, electrical appliances, chewing gum, etc. In the *National Lead* case, recently decided by the Supreme Court, it appeared that, while du Pont and National Lead had 90 per cent of the titanium pigment business (based on patents which they originated and on cartel agreements which the Court

found illegal), subsidiaries of American Cyanamid and Glidden had entered the field and were gaining on the larger producers; meanwhile, there was a terrific struggle between du Pont and National Lead for customers and orders, though the prices of their similar products were substantially identical.

It is the fashion to say that the antitrust laws have never been enforced, or at least that they were not enforced until Thurman Arnold undertook to enforce them in his unique way, and that they have failed to protect and preserve a competitive system. This may be true in the sense that in 1890 Congress did not foresee the enormous industrial development ahead and that the Sherman Act was not calculated to, and has not, protected and preserved a decentralized economy consisting of many small independent units. (Business is unquestionably Big and getting Bigger.) The legislation of the "New Freedom" of 1914 was intended to have such an effect, but by that time industry and business in general had developed in such a way and to such an extent that the Clayton and Federal Trade Commission Acts could not effectively arrest the trend.

The word "negative" is frequently used in this connection. It means different things in different contexts, but to me it means nothing if it suggests that the deterrent effect of the laws has been insubstantial. I think that, by and large, businessmen, even big-businessmen, desire and try to obey the law, and whether they wish to obey or not are required to make their plans and act with reference to the law. This is an important positive effect, just as the effect of the Securities and Exchange Act, or the laws against issuing false statements, or indeed any other law having commercial application, establishes a public policy to which business generally conforms.

Summary Observations

I take it that the participants in this symposium are in general agreement that the antitrust laws (and their enforcement) have not been without influence in shaping the structure and performance of the American economy. The influence which seems to have been most clear-cut is that of blocking agreements between enterprises in the same line of business to fix prices and other terms of sale of products which otherwise would be competitive in these particulars.

I take it that it is equally clear that there is not agreement among the participants as to whether or not the influence of the antitrust laws has been such as to "preserve a broadly competitive system in the United States." Opinion here ranges all the way from a feeling that the laws have been successful in this regard to a feeling that they have been so unsuccessful that it is unwise to rely upon them longer as a major device to make business serve the public interest by responding fully to the dictates of competition.

As one cruises back and forth over this remarkably broad range of opinion one fact seems to emerge with increasing clarity. This fact, stressed directly or indirectly by participants in the discussion, is that the concepts of competition and of a "broadly competitive system" are so diverse that they offer wide latitude for difference of opinion as to the effectiveness of the antitrust laws in preserving and protecting such a state of affairs.

More specifically, in the going concepts of competition there seem to be two major ingredients which are mixed in quite variable proportions. One is performance in buying and selling. The other is the number and relative size of the participants in this process. Thus, according to one going concept of it, competition approaches zero as the number of competitors moves the last few numbers in the same direction. In another concept, the competition may not even get really lively until a few giants are left alone in the ring to slug it out.

It is not my intention even to try to resolve what at times may obviously be a confusing conflict between these concepts, and a conflict which I am sure has afflicted me personally. Both concepts seem to me to have their use, with the element of size and power being perhaps particularly important in trying to gauge the kind of economy that is safe for democracy. That is where my personal interest in the antitrust laws has its mainsprings.

My purpose is simply to note that until we expose the various and complicated strands of our concepts of competition, and then put them together in a clear-cut design which we all understand and accept, our chances of charting clearly how well we are doing in preserving and protecting competition will be seriously compromised. Likewise, until we know much more than now appears to be known about relationships between size, industrial and corporate, and technical efficiency it seems to me that efforts to preserve a competitive system without paying excessively in the form of industrial inefficiency will go forward in a deep fog.

One of the participants in this symposium asserts that "a choice must be made between (1) firms of the most efficient size but operating under conditions where there is inadequate pressure to compel the firms to continue to be efficient and pass on to the consumer the benefits of efficiency and (2) a system in which the firms are numerous enough to be competitive but too small to be efficient." Scarcely less explicitly other participants deny that any such disagreeable choice is necessary. In most industries it does not appear to me that a full appeal to the facts has been made.

In the meantime, there appears to be substantial agreement among the participants that antitrust laws would have accomplished much more than they have accomplished in attaining their ends if there had not been shortcomings such as judicial bungling of economic problems, conflicts, inconsistencies and loopholes in administration, and inadequate support for enforcement. In some cases the remedies for these shortcomings look difficult. If it is true, as one participant asserts, that the courts alone possess enough prestige to have a chance to enforce the antitrust laws effectively, elimination of judicial bungling of the economic problems involved is not likely to be a speedy process. Economic education is not a high-speed acquisition. Likewise, the problems presented by pressure groups bent upon gutting the antitrust laws have no easy or simple solutions.

However, if there is a chance of doing an effective job in the field of antitrust law enforcement (I am not yet persuaded that there is not), it will certainly be greatly enhanced by economic analysis of the problems involved which is more firmly buttressed factually. If there is no chance of

effective enforcement, then such analysis should make for a cleaner and more constructive break with a bootless policy and program. Analysis of this sort lies pre-eminently in the province of the membership of the American Economic Association. Antitrust laws are peculiarly an American invention, and I feel one of our most notable contributions to the evasive art of directing business operations consistently to the enhancement of the public welfare.

COMMUNICATIONS

Price Flexibility and Full Employment: Comment

I should like to suggest two corrections in Mr. Don Patinkin's article "Price Flexibility and Full Employment" in the September, 1948 issue of the *American Economic Review*.

1. Mr. Patinkin points out that Pigou's proposition that a decline in the price level will reduce savings and stimulate employment by increasing the real value of cash balances implies a special definition of "cash balances." The "cash balances" relevant to Pigou's argument consist of "the net obligation of the government to the private sector of the economy." This departure from usual definitions of money is necessary because to the extent that money is backed by bank loans and discounts the gains of deposit holders from a decline of prices are offset by the losses of bank debtors. The cash balances relevant to Pigou's analysis are denoted by M_1.

There follows a statement of considerable importance for monetary policy. Speaking of open-market operations Patinkin says: "Since these operations merely substitute one type of government debt (currency) for another (bonds), they have no effect on M_1, and hence no direct effect on the amount of savings" (p. 551).

This statement is incorrect if the open-market operation has any effect on the market prices of government bonds, as is likely to be the case. Open-market purchases would increase M_1, even if private holdings of government debt are valued at par or in some other conventional way. They would increase M_1 even more if the government debt is valued at market prices. Thus, suppose that before the open-market purchases the private sector holds \$10 billion of currency and government bonds worth \$100 billion at par and also at market. M_1, = \$110 billion. The government buys \$20 billion, par value, of the bonds, and in the process drives up their price so that it pays \$21 billion for its purchases and at the end of the operation bonds stand at 110 in the market. If bonds are valued at par for the purpose of measuring M_1, M_1 will have increased to \$111 billion (\$31 billion currency plus \$80 billion bonds). If bonds are valued at market, M_1 will have risen to \$119 billion (\$31 billion currency plus \$88 billion bonds).

Mr. Patinkin's analysis does not postulate any floor to interest rates above zero. If we then assume a world in which all government interest-bearing debt is in the form of consols there would seem to be no limit to the increase in M_1 that can be brought about by open-market purchases so long as any government interest-bearing debt is outstanding. Open-market purchases could push the yield of the consols down toward zero, raising their aggregate market value toward infinity.

If this analysis is correct, open-market operations are a third way of increasing real cash balances in addition to the two mentioned by Patinkin,

falling prices and government deficits. This third method has important mechanical and political advantages that make it a valuable ingredient of stabilization policy.

2. Mr. Patinkin defines M_1 as "the sum of interest- and noninterest-bearing government debt held outside the treasury and central bank" (p. 551). This definition is used in the measurement of M_1 on page 559. The definition is defective in its treatment of gold and federal debt held by the Federal Reserve Banks. Under this definition an inflow of gold, increasing the public's deposits and member bank reserves would not increase M_1. Neither would M_1 be increased if the Treasury sold securities to the Federal Reserve using the proceeds to pay individuals who hold deposits. If the Federal Reserve is to be treated as part of the government, the Federal Reserve's liabilities, including member bank reserve balances, should be treated as government liabilities. If the Federal Reserve is not to be treated as part of the government, the government's liabilities should include its liabilities to the Federal Reserve.

M_1 would be better defined as gold stock plus federal debt (interest-bearing and Treasury currency) held outside Treasury, minus Treasury deposits at Federal Reserve and other banks. Alternatively, looking at the Federal Reserve as part of the government, we get M_1 equal to money in circulation plus federal debt held outside government and Federal Reserve Banks (this is Patinkin's definition) plus member bank reserve balances, plus non-member bank deposits at Federal Reserve, plus "other Federal Reserve Accounts," less Treasury deposits outside Federal Reserve Banks less Federal Reserve credit other than U. S. governments. These two definitions are identical.

HERBERT STEIN*

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Price Flexibility and Full Employment: Reply

1. Both of Mr. Herbert Stein's corrections are well taken, and I am glad to have them on record. There are just a few comments I would like to make.

Mr. Stein seems to be hesitant about evaluating at market prices those bonds remaining unsold. I think this should definitely be done; so, in the example he offers, M_1 should be considered as increasing from \$110 to \$119 billions. Once we adopt this approach, the possible effects of open-market purchases become still greater; for, through its effect on the interest rate, the government will also change the value of assets other than government securities.

Even apart from this last point, it should be recognized that the changes in M_0 and M_1 will not in general be equal. In the case of open-market purchases, the increase in M_0 equals the total amount of money expended for the purchase of the bonds; the increase in M_1 equals the increased value of assets (both of those bought and those not bought by the government) caused by the open-market operations. Corresponding statements can be made for open-market sales.

To finish up with Stein's first point, I would dispute the emphasis in his statement that "open-market operations are a third way of increasing real cash balances in addition to . . . falling prices and government deficits." Nominally, Stein is correct. Actually, open-market purchases which bid up bond prices are just a special form of deficit financing. When the operation is completed, the total amount of government debt (interest- as well as non-interest-bearing) has increased. All that has happened is that the composition of the debt has changed. Any criticism levelled against deficit financing via, say, tax remissions, can also be used against open-market operations.

2. In the original article, the definition of M_1 given in §6 refers to an economy in which all bank reserves consist of hand-to-hand currency. Unfortunately, this definition was carried over to the analysis of our own economy (pp. 558-59), where there are also debtor relationships between the Federal Reserve System and the private sector. Stein's modifications of the definition of M_1 allow for these relationships. Milton Friedman has also suggested that postal savings be included.

Even these modifications do not solve all the problems of defining M_1 in an economy as financially complicated as ours. What about state and local bonds? I think these should be excluded because of the ultimate necessity of these local governments to balance their budgets. What about bonds of government corporations? I think these should also be excluded, for the same reason. In any empirical study of the effects of changes in M_1, these and other complicated problems will first have to be solved.

These changes in the definition of M_1 require the recomputation of the data on page 559 of the article.[1] In order to be perfectly clear about the steps used in the computation, I shall first explicitly state the definition of M_1 used, at the expense of repeating some of the material in Stein's note: M_1 equals:

(1) money in circulation outside the Treasury and Federal Reserve System
(2) *plus* market value of government interest-bearing debt held outside government agencies and the Federal Reserve System
(3) *plus* member bank deposits in the Federal Reserve System
(4) *plus* non-member bank deposits in the Federal Reserve System
(5) *plus* other Federal Reserve accounts
(6) *minus* Reserve Bank credit outstanding, excluding that based on Reserve Bank holdings of U. S. government securities
(7) *minus* Treasury deposits in member and non-member banks
(8) *plus* postal savings

Data on these series were collected[2] to yield the following figures for net

[1] The study referred to in footnote 19 of the article must also be revised. This has not yet been done.

[2] Data on all these series, except for (2), (7), and (8), can be obtained from *Banking and Monetary Statistics*, p. 368. On pp. 360-67 of this book their interrelationships are discussed. For (7) see *ibid.*, pp. 34-35. For (8) see *Statistical Abstract of the United States: 1947*, p. 419.

Being unable to find an official series for (2), I used the following procedure: Total

real balances in the years 1929-1932, respectively: \$16.6, \$17.1, \$20.3, and \$24.2 billions. These results give even less encouragement than the original ones for faith in the usefulness of the Pigou effect as a policy measure. They show that real balances increased every year of the period, while real national income continued to fall. The year-to-year *increases* of net real balances for this period were 3%, 19%, and 19%, respectively; these were matched by corresponding *decreases* in real national income of 15%, 13%, and 18%, respectively.

Before accepting the Pigou effect as a useful tool of policy, it would seem reasonable to require that a 46% increase in real balances should show at least some salutary effects. This is exactly the percentage increase that took place over the period 1929-32. Yet it was accompanied by a *decrease* in real national income of 40%. To say the least, such evidence should make one hesitant about advocating the Pigou effect as a practical policy measure.[3] True, the above data do not take into account what happened to the real value of all assets during this period (*cf.* §5, especially footnote 6, of the original article). But, with respect to policy, monetary assets (as represented by M_1) are the only ones over which the government has any control. Hence, the case for the Pigou effect must stand or fall on the response of the economy to changes in the real value of monetary assets alone. On this question the available evidence seems definitely in the negative.

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outstanding government debt at face value was classified according to maturities (0-5 years, 5-10, and over 10) on the basis of ***Banking and Monetary Statistics***, p. 511. These classifications were multiplied by price indexes for government bonds with maturities of more than 3 and less than 4 years, more than 6 and less than 9, and more than 10, respectively (Standard and Poor, ***Statistics: Security Price Index Record: 1948 edition***, pp. 139-44). The sum of these products was used as an estimate of the market value of the total government debt. The ratio of this to the face value of the total debt was computed, and this ratio applied to the face value of government debt held outside the Treasury and Federal Reserve System (***Banking and Monetary Statistics***, p. 512) to yield an estimate of the required series.

[3] In particular, I feel that Milton Friedman's policy proposals in his "A Monetary and Fiscal Framework for Economic Stability" (this ***Review***, June, 1948, pp. 245-64) give entirely too much of a central position to the Pigou effect (*cf.* especially *ibid.*, pp. 259-61).

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Geometrical Measurement of Elasticities

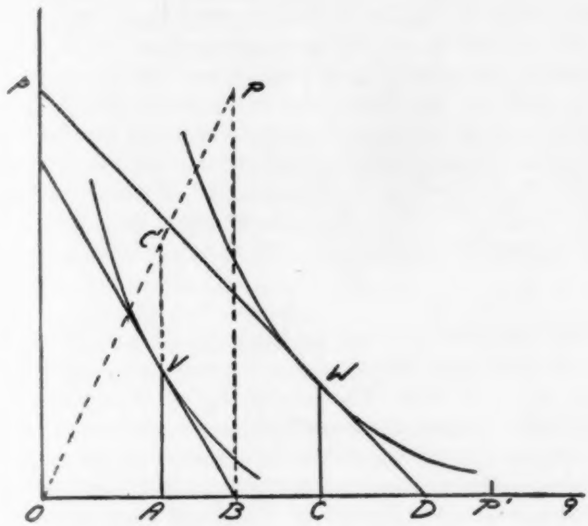
Messrs. John S. Henderson and Abba P. Lerner, in notes presented in *The American Economic Review*,[1] have suggested methods of geometrical comparisons of relative point elasticities on different curves.

When comparing the point elasticities of two demand curves, it is sometimes

[1] John S. Henderson, "Geometrical Note on Elasticity of Demand," *Am. Econ. Rev.*, Vol. XXXVI (Sept., 1946) pp. 662-63.

Abba P. Lerner, "Geometrical Comparison of Elasticities," *Am. Econ. Rev.*, Vol. XXXVII (March, 1947) p. 191.

desirable (under a controlled marketing program, for example) to know not only which of the two elasticities is larger, but the ratio of the elasticities. Comparison of relative point elasticities on two demand curves by the ratio of two length ratios may be confusing. The following method is suggested to reduce the ratio of the elasticities to a single ratio of two line segments, illustrated by the diagram shown below:



The elasticity at V, $E_v = \frac{AB}{OA}$, the elasticity at W, $E_w = \frac{CD}{OC}$. With O as center swing an arc equal to OC cutting AV extended at C′. At B erect a perpendicular and extend to cut OC′ extended at P. Since BP is parallel AC′, $\frac{AB}{OA} = \frac{C'P}{OC'}$ (a line drawn through a triangle parallel to the base divides the sides proportionately), or since $OC' = OC$, $\frac{AB}{OA} = \frac{C'P}{OC}$. Then, with C as center, and C′P as radius, swing an arc cutting the q axis at P′. Thus $E_v = \frac{AB}{OA} = \frac{CP'}{OC}$, and $E_v : E_w = \frac{CP'}{OC} : \frac{CD}{OC}$ or $E_v : E_w = CP' : CD$.

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MEMORIALS

Wesley Clair Mitchell
1874-1948

On December 28, 1947, at the sixtieth annual meeting of the American Economic Association in Chicago, Wesley Clair Mitchell received the first award of the Francis A. Walker Medal for pre-eminent contributions to economics during a lifetime of distinguished service. In a graceful tribute President Douglas expressed the admiration and affection in which Professor Mitchell was held by the economists of America. Mitchell's death came ten months later. It is a source of deep satisfaction to all members of the Association that opportunity was given while Mitchell was yet alive for the expression of our feeling for him, and for the acknowledgment of our indebtedness to him. We knew then, as we know now, that the award was made to one of the great figures in the history of our science.

I

Wesley Clair Mitchell was born in Rushville, Illinois, on August 5, 1874. His father was a country doctor who had served as a surgeon in the Union Army during the Civil War. The family was of New England stock, and although a Middle Western boyhood and later adult years in California and New York left their impress on Mitchell, something of the New England strain was always discernible in the pattern of his thought and life. His father's practice, which was limited by the effects of wounds received during the war, was combined with the management of a fruit farm on which the seven children worked during their early years.

Mitchell's pre-college schooling followed the pattern of the times, but home influences and his own native qualities contributed to produce a mind that was keen, sensitive, and richly stocked before he left the farm for college work. He had an abiding love of poetry and a delicate awareness of the subtleties of speech and the rhythms of the English language—qualities that must be acquired early, or not at all. His youthful training in logic he has described with singular charm. Christian theology was the instrument on which he polished his youthful wits, and a well-loved grand aunt was the protagonist of this theology.

> She was the best of Baptists, and knew exactly how the Lord had planned the world. God is love; he planned salvation; he ordained immersion; his immutable word left no doubt about the inevitable fate of those who did not walk in the path he had marked. Hell is no stain upon his honor, no inconsistency with love. . . . I adored the logic and thought my grand aunt flinched unworthily when she expressed hopes that some back stairs method might be found of saving from everlasting flame the ninety and nine who are not properly baptized. But I also read the Bible and began to cherish private opinions about the character of the potentate in Heaven. Also I observed that his followers on earth did not seem to get what was promised them here and now. I developed an impish delight in dressing up logical

difficulties which my grand aunt could not dispose of. She always slipped back into the logical scheme, and blinked the facts in which I came to take a proprietary interest.[1]

The young University of Chicago offered rich fare to a mind thus prepared. John Dewey provided a kind of logic that was far removed from that of nineteenth-century theology, and a way of regarding the operations of the human mind that was a revelation to the young student. "It is a misconception to suppose that consumers guide their course by ratiocination—they don't think except under stress. There is no way of deducing from certain principles what they will do, just because their behavior is not itself rational. One had to find out what they do. That is a matter of observation, which the economic theorists had taken all too lightly."[2] Thorstein Veblen provided edification of another sort for the youthful agnostic with a weakness for subtle paradoxes. Veblen's influence on Mitchell was profound (the paper on "Industrial and Pecuniary Employments" provided insights that helped shape the study of business cycles and much of Mitchell's later thinking); but the young student could view Veblen, too, with detachment, enjoying his brilliant expositions and sardonic style while appreciating that this, also, with all its penetrating suggestiveness, fell short of sound craftsmanship. ("How important were the factors he dealt with and the factors he scamped was never established.")

Somewhat more conservative approaches to economics were open in the well-documented course of Adolph C. Miller on English economic history, and in J. Laurence Laughlin's offerings in money and banking. Mitchell's first serious investigations and his early undertakings as a teacher reflected Laughlin's influence. His study of the greenbacks stemmed directly from Laughlin, and Mitchell was first introduced to the phenomena of business cycles in Laughlin's courses. One other of Mitchell's teachers of economics, William Hill, played a formative role at this stage. An assignment by Hill of a course paper on "Wool Growing and the Tariff" sent Mitchell first to the reading of tariff speeches—an illuminating experience in its own right—and thereafter to his first comprehensive job of data gathering. Mitchell's native agnosticism was strengthened by the contradictions he found between his statistical conclusions and the notions he encountered in Congressional and academic discussions of the tariff.

Unsystematic but fairly extensive readings in anthropology (instigated by Veblen) and some systematic course work in psychology carried Mitchell beyond the programs of study followed by most students of economics. This period brought, too, first contacts with Jacques Loeb, the brilliant physiologist. Loeb's studies of the phenomena of behavior at both the physiological and

[1] Letter from W. C. Mitchell to J. M. Clark, published in *Methods in Social Science*, edited by Stuart Rice (Chicago, 1931), p. 676.

Years later, on declining an invitation to make some laudatory remarks that would have been hypocritical, Mitchell said that only once in his life had he expressed views that did not represent his convictions. He had made this one departure from probity to ease his grand aunt's forebodings.

[2] *Ibid.*, p. 677.

psychological levels influenced Mitchell not only in their substance, but as illuminating examples of scientific method. Loeb gave Mitchell positive, first-hand acquaintance with rigorous methods that were clearly fruitful in studying one aspect of organic behavior. Mitchell was prepared to appreciate their potential fruitfulness in dealing with other aspects of behavior. Here were instruments that offered something positive and satisfying to a mind rendered skeptical by early predilections, by Veblen's biting critiques, and by Dewey's iconoclastic treatment of conventional attitudes toward processes of thought. Loeb's influence on Mitchell, confirmed and strengthened through later association at California, was deep and lasting.

In this background we have some explanation of Mitchell's ability to get outside the framework of traditional economics, to view with a fresh eye the problems economists set themselves and to appraise from a fresh viewpoint the methods employed by economists in attacking these problems. The projection of these factors helps, too, to explain Mitchell's characteristic attitudes in later years, and his own choice of problems and methods.

Mitchell's undergraduate and graduate studies at Chicago were broken by an interim period of one year spent at Halle and Vienna, where he attended lectures by Johannes Conrad and Carl Menger. There is no evidence that this experience had any material influence on Mitchell's thinking. His outstanding qualities as an economist were distinctive of procedures and ways of thought that had their characteristic development in this country.

Mitchell's doctorate was completed at Chicago in 1899, his thesis being a *History of the Legal Tender Acts of 1862 and 1863*. Thereafter came a year at the Office of the Census and two years at Chicago as instructor in economics. During this period his doctoral dissertation was expanded to become a *History of the Greenbacks*, a notable study in itself and a point of departure for much of Mitchell's later work.

In 1903, Mitchell moved to the University of California at Berkeley to begin a decade of fruitful work and of steady personal growth. His tools of research were sharpened and his mastery of them perfected. His brilliant greenback studies were extended. But the confines of this enterprise were too narrow, and Mitchell soon laid it aside. (*Gold, Prices and Wages Under the Greenback Standard* contains basic data he thought it well to make available to other scholars, with explanatory notes, but the material was not fully exploited.) Some of the essential problems with which he was concerned in his first studies persisted, but Mitchell sought to solve them in a much wider framework, analytical and observational. The massive monograph on *Business Cycles*, one of the great products of scholarship in the social sciences, was the result.

The labors that led to the solid contributions of these California years did not preclude other activities. This was a rich period in Mitchell's life, to which he always looked back as something of a personal golden age. A young man intellectually somewhat aloof and inclined toward austerity mellowed in the sunshine of the West and in the easy, pleasant companionships of the young University. His associations within and without his own department were congenial. An active Philosophical Union helped to provide

intellectual fare. He took to the Sierras avidly, relishing the free ways, the free language and the physical release to be found in mountain climbing. A companion of those days says that Wesley's inhibitions were peeled off like the layers of an onion as successive altitude levels were passed. He found a wife, too, in the West; when he left California he took with him the Dean of Women of the University.

Mitchell ended his term at California in 1912. Marriage and the completion of his Cycles study combined to mark the end of one period of his life and the beginning of another. His own professional desires and the interest he and his wife shared in problems of education were both served by a move to New York. There was a break of one year which was spent abroad; final tables for *Business Cycles* were prepared at Berchtesgaden, when that word meant merely a beautiful spot in the Bavarian Alps.

On his return to the United States in 1913, Mitchell began his service in the Faculty of Political Science at Columbia. The department of economics was small in those days. J. B. Clark was still meeting students occasionally; Seligman, Seager, Simkhovitch and Moore were the continuing members of the teaching staff when Mitchell joined it. None who attended Mitchell's courses in those early years will forget the sense of excitement and anticipation with which one entered a class. Mitchell was giving a course on Business Cycles, a reflection of his continuing research interests. Equally stimulating to the students of that day was his new offering on Types of Economic Theory. Mitchell's early discontent with economic theory, a discontent clearly manifest in his own account of his student days,[3] had been combined with a sense of the need of generality if we are to have adequate explanations of complex reality. There was a conviction of need, a profound unhappiness over what was offered. *Business Cycles,* indeed, had been regarded by Mitchell as an introduction to economic theory. The completion of that study gave Mitchell opportunity to turn to a more systematic review and appraisal of theory than he had yet undertaken. This he did in the years following 1913, and the members of his small classes had opportunity to join in this review with him.

The content of this course varied somewhat from year to year. In its early form it included expositors of English classical doctrines through Marshall;

[3] "Men had always deluded themselves, it appeared, with strictly logical accounts of the world and their own origin; they had always fabricated theories for their spiritual comfort and practical guidance which ran far beyond the realm of fact without straining their powers of belief. My grand aunt's theology; Plato and Quesnay; Kant, Ricardo and Karl Marx; Cairnes and Jevons, even Marshall, were much of a piece. Each system was tolerably self-consistent—as if that were a test of 'truth'! There were realms in which speculation on the basis of assumed premises achieved real wonders; but they were realms in which one began frankly by cutting loose from the phenomena we can observe. And the results were enormously useful. But that way of thinking seemed to get good results only with reference to the simplest of problems, such as numbers and spatial relations. Yet men practiced this type of thinking with reference to all types of problems which could not be treated readily on a matter-of-fact basis—creation, God, 'just' prices in the middle ages, the *Wealth of Nations* in Adam Smith's time, the distribution of incomes in Ricardo's generation, the theory of equilibrium in my own day." (From letter to J. M. Clark, Rice, *op. cit.*, p. 678.)

Jevons and Walras; Sombart, Schmoller, Schumpeter and von Wieser; Fetter, Davenport, and, extensively, Veblen. The treatment of each author studied dealt with the substance of that man's thought, and with the social and intellectual setting of this thought. At a later time Mitchell wrote, "Scientific progress consists largely in this process of taking thought about what had theretofore been taken for granted. As any science grows it keeps turning back upon itself in this fashion, and thus becoming conscious of more and more elements in its structure."[4] Mitchell's native skepticism, his excursions into anthropology and psychology, and his ability to look at traditional economics with an objective perspective admirably fitted him to deal thus with the postulates and preconceptions of various types of theory.[5]

In the conduct of this course Mitchell played the part of a detached and skillful expositor, a leader of discussion, a stimulator of critical appraisal. His treatment of his class was gracious, stimulating; his interpretations were illuminating revelations to most of us. The facts of social history, the character of the climates of political opinion that dominated the years when particular theories were taking shape, and the threads of philosophical thought that ran through these years were developed systematically as the assumptions of different theorists, conscious and unconscious, were laid bare. Mitchell's own views were subordinated, except in his closing lectures, although they were inevitably revealed by implication and indirection. It was clear that a genetic explanation of economic phenomena was congenial to Mitchell's thought; that rationalistic assumptions were suspect; that understanding of economic behavior was to be sought through a study of human motivation at the level of the instinctive and the unconscious as well as at the level of rational activity; that institutions, "prevalent social habits," were at once controllable and controlling in the processes of economic life; that economics could play a major role as a positive instrument of human progress.

This course, like every course that Mitchell gave, was an adventure in education. Mitchell possessed in high degree the qualities of a good teacher. There was insight in his analyses; there was a freshness of view that he never lost; there was lucidity of thought and expression, and masterly orderliness of exposition; there was a sense of sharing with the student the task of inquiry. Above all, perhaps, was the sense of integrity. Here was a man without affectation, without pretense, who honestly sought understanding.

Mitchell's reputation had been established by the time he came to Co-

[4] "Postulates and Preconceptions of Ricardian Economics," reprinted in *The Backward Art of Spending Money and Other Essays* (New York, 1937), p. 205.

[5] His distinction between logical postulates, which are consciously recognized and taken for granted, and preconceptions—convictions that shape the general trend of a man's thinking without being themselves submitted to critical scrutiny—is revealing for the light it throws on Mitchell's ever-present suspicion of rational processes. "We take postulates up, play with them, and drop them for others. They are external to us and we feel no affection for them. But preconceptions are parts of us. They grow up in our minds. We are but dimly aware of the role they play in shaping our conclusions about the matters on which we focus attention. . . . Even in our most rigorous work we are influenced by them." *Ibid.*, p. 205.

lumbia; he had reached full scholarly maturity. Yet his growth continued and his accomplishments multiplied. A steady (but not a voluminous) flow of papers, reviews, addresses and more extensive studies came from his pen. Into each, whether brief or extended, went care in the construction of a logical and orderly argument, skill in the marshalling of evidence, and objectivity in the use of that evidence. Each, too, was in exposition a work of craftsmanship by a man who used the instrument of language with sensitivity and precision.

There was also an almost uninterrupted series of public and professional services and of accumulating honors. He was chief of the Price Section of the War Industries Board during the first World War, chairman of the President's Committee on Recent Social Trends, a member of the National Planning Board, the National Resources Board, and the Federal Emergency Administration of Public Works, and chairman of the Committee on the Cost of Living when that burning issue threatened to check the steady production of goods during the second World War. There was the launching in 1920 and the directing for a quarter of a century of a new instrument for the advancement of knowledge—the National Bureau of Economic Research, an institution which in very truth is the lengthened shadow of Wesley Mitchell. Over a long stretch of years he helped to break down the barriers between the social sciences and to unify their activities in the Social Science Research Council. He was one of those who founded and shaped the New School for Social Research. Counsel and guidance were given over many years to the Bureau of Educational Experiments. He was called upon to direct the affairs of professional societies, serving as President of the American Economic Association, the American Statistical Association, the Econometric Society, and the American Association for the Advancement of Science. There were elections to learned societies at home and abroad. Honorary degrees came from the University of Paris and from major universities in this country. These were rich honors and they were not unwelcome; but he remained to the day of his death a modest scholar, who would both gladly learn and gladly teach.

II

The general pattern of Mitchell's work as an economist was foreshadowed in his *History of the Greenbacks*. There was broadening, diversification, and enrichment in subsequent activities, but in notable degree later developments were natural outgrowths of the play of a questing mind on a set of problems first attacked in the greenback study. These problems were products of contemporary conditions—the long period of price decline and debtor difficulties that generated the cross-of-gold speech, the free-silver program, and the sound-money controversy of the McKinley-Bryan campaign. This price decline provided the great economic issue of that day. Its causes were furiously debated within and without academic halls. Francis A. Walker and J. Laurence Laughlin, Mitchell's teacher, were adversaries in a sustained debate on the quantity theory of money. Mitchell's first published paper, written as an undergraduate, was a contribution to this discussion, with

Mitchell taking a highly critical view of that theory.[6] It was natural that this should be the path by which Mitchell entered upon serious economic study, and that his first major investigation should deal with the issuance of money and with related price-level and other changes. What is notable, however, is the rapid and steady growth, the passage from an old controversy to realistic research on larger issues and more fruitful phases of the interrelations of money and prices. This growth was steady and cumulative. There is a clear, unbroken thread running through Mitchell's major studies—from the *History* to *Measuring Business Cycles* and to the manuscripts that were left unfinished at his death. Mitchell's life was given to a single great endeavor, pursued tenaciously, imaginatively, flexibly, and unremittingly. In some sense the job was unfinished at his death; the self-imposed task of mastering a vast and shifting body of data was foredoomed to incompleteness; but the incompleteness was the incompleteness of life itself.

Mitchell's concern in his *History of the Greenbacks* was with the economic consequences of the legal tender acts. The pursuit of these consequences led him to an examination of the effects of changes in the purchasing power of the standard money upon the distribution of the national dividend during the wartime boom from 1861 to 1865. The shares in this national dividend, first studied in money terms, through an appraisal of price fluctuations and shifts in relative prices, were then assessed in real terms. Beyond this study of changes in the real incomes of laborers, landlords, capitalists, and business managers lay a broader question—what effects these changes had upon the production and consumption of wealth, again at the level of material things.

In the unfolding story of these four years of monetary depreciation and rising prices we find elements that entered into much of Mitchell's later work: the money level and the real factors underneath; the role of prices and, in particular, the importance of differential price changes in determining the fortunes of different groups; the effects of relative price changes upon profits, and the relations between changes in profits and changes in the rewards of other factors. For a single major phase of wartime expansion Mitchell was seeking to define the sequence of cumulative changes by which depreciation of the standard of values altered the system of money payments and thereby shifted the distribution of real income. But his study was restricted in time and its scope was confined to a limited number of economic processes. Before this and the closely related successor study were finished Mitchell knew that he had not gotten to the bottom of the problems he faced; he had, moreover, learned to see these problems in a larger way.

Renouncing, therefore, the limited study within the period of the greenback episode, Mitchell turned first to a more general analysis of the system of prices. Here, as he followed the interesting ramifications of this subject, he found himself leaving the solid ground of observation behind him and venturing into speculative pronouncements.[7] This was intolerable to a man

[6] "The Quantity Theory of the Value of Money," *Journal of Political Economy*, March, 1896.

It was not many years before Mitchell himself condemned the restricted conception of the quantity theory on which the argument of this paper was based. See "The Real Issues in the Quantity Theory Controversy," *Journal of Political Economy*, June, 1904.

[7] *Cf.* Rice, *op. cit.*, p. 679.

who was always supersensitive to the dangers of unchecked reason. But one phase of the working of the price system was open to investigation in realistic terms—the recurring readjustments of prices in the course of financial crises. These shifts, moreover, bore upon those problems of changing real output and consumption and shifting real incomes that had been objects of central concern in his study of the Civil War expansion. If adequate understanding of these recurring processes might be achieved, a contribution could be made to a kind of economic theory more satisfying than that yielded by introspection and the selective use of limited facts. So Mitchell turned to the study of business cycles.

The subsequent story will not here be told in detail. The search for an adequate understanding of business cycles was a search for valid economic theory. Mitchell's examination of accepted theories, his extended consideration of relevant thought and procedures in other scientific fields, and his own experience as an investigator led to conclusions respecting theory that have been set forth in various papers and that are embodied in his substantive work. Mitchell's persistent interest in the phenomena of business cycles carried through to his death, the two major publications subsequent to the 1913 monograph being *Business Cycles: The Problem and Its Setting*, in 1927, and *Measuring Business Cycles* (jointly written with A. F. Burns) in 1946. The founding of the National Bureau of Economic Research, in which Mitchell was a prime mover, was a direct reflection of Mitchell's deep-seated views as to the means by which adequate understanding might be achieved. The diversity of papers and brief monographs, notably the series of annual reports written by Mitchell as director of the National Bureau, bore continuing witness to the freshness and seminal character of Mitchell's thinking, and reflected the searchings of a continually curious mind for light on the central problems that had concerned him from his early Chicago days. His quest was never finished, but his zest for it was unabated and unflagging.

Mitchell's concern, as J. M. Clark has suggested, has been with problems of concrete behavior. For these he sought interpretations in terms of "analytic descriptions."[8] "A theory of business cycles," he wrote in the Preface to his 1913 monograph, "must . . . be a descriptive analysis of the cumulative changes by which one set of business conditions transforms itself into another set." The theory providing such descriptive analysis would not be exhaustively detailed. The need of abstraction from the complexities of reality is clearly recognized by Mitchell. Conformity to the world about us and usefulness in the understanding of life processes are not inconsistent with conceptual simplicity. Mitchell's goal in the study of business cycles was the derivation of such a theory; his broader objectives were the confirmation of methods by which pragmatically tested theories might be derived and the establishment of agencies by which the research that might lead to such theories could be maintained and assured.

The road that Mitchell followed in seeking to establish theories that would serve as instruments of understanding was a hard road. Looking back over the fruitful years of his life, it is easy to overlook the valleys, the periods

[8] *Cf.* Rice, *op. cit.*, p. 667.

of trial and struggle when refractory reality would not fall readily into patterns that met his own exacting standards. Retreat into the spinning of speculations would have been an easy way out, for a mind as adept at that art as was Mitchell's. But this was a course he did not take. He worked over his materials again and again (". . . I have to do everything a dozen times."); he sought new observations; he experimented with new patterns. Always there was the interplay and interaction of reason and observation; speculations were checked against data, data were organized in ways suggested by speculation. New observations were sought to check ideas suggested by other data; old observations were re-ordered under the play of an imagination that never lost its freshness. If there was one dominant quality in Mitchell it was the tenacity with which this procedure—the interplay of speculative reason and meticulously careful observation—was carried through. It is a procedure to which we all give lip service; Mitchell practiced it.

It is true that always the observations yielded an incomplete structure; always there were challenging new issues; always the work was unfinished. But this was of the essence of the reality from which Mitchell refused to get away. Not even for the aesthetic satisfaction of deriving a harmoniously consistent, logically tight system—and Mitchell was a craftsman who loved nicely articulated structures—would he blind himself to aberrant observations. Not even for the joy of completing a lifework would he ignore any part of the complex reality with which he was dealing. Here was integrity—integrity that kept him at his testing and pattern-making until the day of his death, and that kept beyond his reach that final clean-cut termination of his job for which he had once hoped.

Mitchell framed no vast speculative system. He left no cosmology. No volume of *Principles* bears his name. His substantive contributions are embodied in four major monographs; his influence on economic thought and method was felt through these, through dozens of papers, addresses and reviews, and through hundreds of students. Some of the concepts and beliefs that shaped his research activities have been suggested above:

1. The emphasis on objective behavior as an object of study, as against the "intellectualist fallacy" of the nineteenth century.

2. The conception of economics as one of the sciences of human behavior.

3. A concern with reality, and a conviction that the objective of economics is the understanding of the institutions and processes by which men make their livings. All available instruments to this understanding should be utilized by the economist, but it is the understanding of reality and not the formulation of a body of concepts to be judged in terms of their own internal consistency which is the end-purpose of economics.

4. The belief that pecuniary institutions, and the money economy generally, provide keys of central importance to an understanding of contemporary economic processes.

5. The notion of sequence, the concept of cumulative, consecutive growth, as opposed to the Newtonian concept of equilibrium.

6. "The notion that inquiries should be framed from the start in such a way as to permit of testing the hypothetical conclusions"; profound belief

in the interplay of reason and observation as the way to achieve warranted conclusions.

7. The confidence in statistical measurement as a means of ensuring the cumulative growth of a body of factual knowledge; such quantitative, substantive knowledge would not only provide tests of hypotheses, but would constitute a seed-bed for the germination of new hypotheses.

These ideas (as here listed they overlap, of course) and related concepts that determined Mitchell's choice of problems and modes of study were derived in part from early teachers and from his studies in various fields; in part they reflected personal predispositions; as working instruments of his adult years they represented his own amalgam of thought and observation and his own mature judgments. From their application over half a century by a tenacious, questing, honest mind, actuated by a builder's instinct, came Mitchell's distinctive contributions to the body of economic knowledge, to the methods of economics, and to our present instrumentalities for the conduct of economic and social research.

The nature of these contributions will be the subject of appraisal in subsequent studies by Mitchell's fellow economists at home and abroad. In this brief memorial I suggest only the general nature of Mitchell's impact on the economics of his time.

His substantive contributions were extensive. No man did more to turn economists toward the study of the actual functioning of our economic system. The first great effort on Business Cycles, an extraordinary product of the zeal and energies of one man, yielded knowledge we had never before possessed of the phenomena of such fluctuations; the play of an imaginative and penetrating mind illumined and gave coherence to these phenomena. Subsequently, this body of organized information was extended in a massive and sustained research effort covering more than a quarter of a century. Many contributed to this accumulation and participated in the task of analysis, but Mitchell was the stimulator and the master organizer.

There were concrete contributions beyond the field of cycles. Mitchell was the captain of the team that launched the first comprehensive study of the amount and distribution of the national income. From this came not only a new body of knowledge vital to an understanding of economic activity; an enterprise was begun that was ultimately taken over by the federal government, and that, expanded and developed, provides today a great conceptual scheme for the organization and analysis of the facts of economic life. The growth of the body of concepts and methods relating to national income and the concurrent development of a rich body of organized facts provide an ideal example of the kind of expansion of knowledge in which Mitchell believed and to which he devoted his life.

Finally we must note the additions to our knowledge of the details of the working of the money economy that derive from Wesley Mitchell. Veblen had stressed the role of pecuniary institutions in the behavior of men; Marshall had said that money is "the center around which economic science clusters"; Walras and Pareto had developed a model defining the interaction of prices in the attainment of market equilibrium. And many other economists

had dealt with the money surface of things, often as a surface that obscured the play of real factors. Mitchell found great theoretical significance in the money aspect of economic processes. But to point this out was not enough. Characteristically, he labored to give substance to these ideas. From his earliest greenback study to his latest manuscript Mitchell was providing such substance. Giving realism to the idea of prices as a complex, interrelated system of many parts, with almost organic qualities of growth and change, Mitchell defined the characteristic modes of behavior of important elements of that system. The systematic study of prices, not primarily as specific equilibrium points in a conceptual network of supply and demand schedules but as measurable aspects of economic behavior, began with Mitchell.

Mitchell was a tool-maker, imaginative and ingenious in improving the technical instruments of research. His monograph on index numbers is still a classic in the field. In his own early work he developed novel techniques of cycle study, and he played a continuing part at the National Bureau in the refinement of these tools and the forging of others. He was not a mathematical statistician, but he had a lively interest in this rapidly developing subject and sought to utilize in his own work such of the tools and tests as he could employ with understanding and with assurance that they were relevant.

The perspective of time will be needed for an appraisal of Mitchell's influence on the body of concepts and analytical tools suggested by the term "economic theory." In the revealing letter to J. M. Clark to which reference has been made Mitchell has described his own reaction to the traditional theory of his college days. He was impressed by the danger of speculation on the basis of assumed premises, except with reference to the simplest of problems, such as numbers and spatial relations. Where *phenomena* were to be explained one could not cut loose from them; here the "patient processes of observation and testing—of the relations between working hypotheses and the processes observed" were the roads to understanding. "Romances, utopias, and economic systems" (*i.e.*, systems of economic thought) he loved, but he wanted to become a scientific worker.[9]

Theory, then, as an abstract system of thought which could not be tested against reality, had no place in Mitchell's working equipment. But theories as working hypotheses that can be checked against observations, as analytical devices that facilitate the organization of data, are to be sought and prized. These tools may be specific and limited; they may be comprehensive and far-reaching concepts; indeed an architectonic mind—and this Mitchell had in high degree—would be forever seeking the widest possible framework, the most comprehensive concepts, provided always that the framework fitted reality, that the concepts were open to testing and verification.

The body of ideas on which the economist might draw in deriving working hypotheses expanded, in Mitchell's thinking, as he matured and as his own experience broadened. The social sciences, the biological sciences, the sciences of the mind—all these furnish the economist with fruitful leads. Man's

[9] Rice, *op. cit.*, p. 678.

reciprocal relations with institutions of his own contriving, institutions which he has shaped and which in turn are shaping him, are of central concern to one who is attempting to define patterns of cumulative change in economic behavior and to develop a body of concepts for use in the study of economic processes. This body of concepts will be checked, modified, rechecked and again modified until there is conformity to the circumstances of economic life. A structure of ideas thus developed and thus adapted to reality would provide intellectual tools for the understanding of economic behavior.[10]

Although Mitchell's predilection was toward inductive procedures and constant verification, and although he reacted against the system building of the generation that preceded his own, he recognized virtue in a diversity of approaches to economic problems. He was intolerant of sheer abstraction which masqueraded as an explanation of reality. But for rigorous abstract reasoning as a stage in the process of inquiry he had the fullest respect. There was room in economics for the exercise of many skills; economics was to Mitchell a house of many mansions.

III

To the picture of Wesley Mitchell the tenacious investigator, the brilliant expositor, the inspiring teacher, there must be added a few strokes at least to depict other sides of a singularly balanced human being. There was a Puckish quality in Mitchell reflected in his youthful (and enduring) love of paradox. Even in his advanced years he could view with impish glee Irving Fisher's soberly framed rules of health; he used tobacco with special gusto because Fisher banned it. He enjoyed the play of Veblen's scalpel,

[10] There is no one source in which Mitchell's views on economic theory are set forth in rounded form. Certain of his essays deal more explicitly with these matters than do his extended works. Three papers reprinted in *The Backward Art of Spending Money and Other Essays* are of direct interest: "The Role of Money in Economic Theory," *American Economic Review*, Supplement, March 1916; "The Prospects of Economics," from *The Trend of Economics*, edited by R. G. Tugwell, 1924; "Quantitative Analysis in Economic Theory" (Presidential address delivered at the 37th annual meeting of the American Economic Association), *American Economic Review*, March 1925.

To these we might add "Wieser's Theory of Social Economics" (*Political Science Quarterly*, March 1915; also reprinted in *The Backward Art of Spending Money and Other Essays*). In expounding Wieser's theory, Mitchell makes clear many of his own ideas on the scope and character of a useful body of economic theory.

Not explicitly devoted to theory, but of high significance for the light they throw on Mitchell's basic conception of theory, are chapters on institutional settings in his 1913 and 1927 books on *Business Cycles*. In the earlier book the chapter is entitled "The Economic Organization of Today"; in the later, "Economic Organization and Business Cycles."

Mitchell's opinions as they stood in 1918 were rather systematically, although informally, developed in the terminal lectures in his course on Types of Economic Theory, in which he propounded a modern ground plan for economic theory. Notes on these lectures exist, but they were never edited by Mitchell, or approved by him. In these lectures Mitchell sketched a general framework in which economics was presented as one of several sciences of human behavior, the special concern of economic science being the growth and present functioning of economic institutions. Into such a framework all the traditional types of economic theory, as well as types involving other approaches to the study of economic institutions and processes, could be fitted, in Mitchell's view. Most of the orthodox theories, for example, would fit into such a scheme as studies of the logic of pecuniary institutions.

dissecting and undercutting pretentious systems of thought. But his mind was not essentially that of the skeptic, and particularly not that of the mocking skeptic. Having no pretense himself, he could be scornful of pretentiousness. But there was no scorn for honest endeavor, whether successful or not.

Mitchell found deep satisfaction in his home life. He and his wife shared an interest in education, and sponsored one of the most fruitful of the experiments that helped to break the education of the young out of the molds of nineteenth-century custom. He joyed in the companionship of his children. In their New York home and at Huckleberry Rocks, in Vermont, there was a healthy, wholesome family atmosphere. The children were partners of the parents in the life of the Mitchell household. At Huckleberry Rocks, too, there was a workshop to warm the heart of one who respected the arts of woodworking. Here Mitchell could indulge to the full his love of fine craftsmanship. He was as skilled and honest in the tasks of cutting, sawing and fitting a delicate piece of inlay work as he was in assembling economic observations and fitting them into a meaningful structure. Here, also, was his study, with contents ranging from scholarly tomes and slim books of verse to the latest detective fiction, of which contrivances Mitchell was a connoisseur. In this home, in its activities and interests, its responsibilities and its joys, there were wells of contentment for Mitchell. Here were some of the deep sources of his strength.

Wesley Mitchell's life was a full life and he was, in truth, a whole man. He found in life the abiding satisfactions that go with integrity of mind, generosity of spirit, and service to a cause that can draw man out of himself and beyond himself. In his life's work Mitchell served the human race. In his own being he helped to give dignity to that race.

FREDERICK C. MILLS

New York, N.Y.

Harry Alvin Millis
1873-1948

In the opinion of most who knew him personally and of the many more who knew him through his work alone, Harry A. Millis was a man of great and uncommon wisdom. He was a distinguished scholar, a skillful administrator, a creative and judicious arbitrator, and, without peer, a builder of men. Through his teaching, his scholarship, his decisions as an arbitrator, as a quasi-judicial official, as an administrator and an adviser on important matters of national economic policy, he exerted a healthy influence upon the lives of men and women in all branches of his society. Union leaders, company officials, workers in clothing plants, auto plants, print shops, workers in government, lawyers, university professors, students—all looked upon him with respect and admiration—and many with deep affection. In the field of industrial relations Millis will probably go down in history as the person, of his time, with the greatest number of friends and fewest enemies.

Those who knew and worked with him will probably never forget him—the way he looked, his voice, his laugh and the things he said. He was a big man—over six feet tall and his bearing was that of the athlete he was in his youth. When he walked, he walked slowly, looking neither to the right nor to the left, and as one recalls, he seemed forbidding, impressive and remote. To a few he was "Hank"; to most (and not always behind his back) he was "Pop"; to others, affectionately, the "Boss." He could be firm, gruff, and on rare and merited occasions angry; but he was gentle, humorous, and an incorrigible sentimentalist, his grumbling resistance to the contrary notwithstanding. He loved a good story and a pointed anecdote, and his own were pungent and Hoosier-flavored. "Kid stories" featuring his grandchildren were worth repeating and remembering. He was alway a great sports enthusiast, a lover of games, and a college football fan. Even toward the last, he and his grandson, "young Harry," spent long minutes of hospital visiting time debating the relative merits of major league ball players.

It was a familiar sight at Chicago to see his students lining up outside his door after those eight o'clock classes that began his long days, as they came for advice or to report progress. No matter where his office, or how impressive the appointments, those who knew him will remember the characteristic corner of it which he inhabited, the great robust figure surrounded by clouds of pipe-smoke and high jumbled piles of books and manuscript, press releases, and miscellaneous publications that encroached upon his work-space. They will remember the twinkle of the brown eyes, the gruff manner and the slow reassuring smile. They can still see the long, large, tapered fingers and how they would reach in the vest pocket for a match, strike it under the center desk drawer, and as it flared, bring it up to the insatiable pipe. Some said he smoked matches instead of tobacco. They will remember how the smoke from the puffing pipe would become thicker and how the match would be waved out and then flung in the general direction of the waste basket, to land, with most of its fellows, on the floor. They may remember some of his favorite expressions—"meaningful," "stout" which he insisted was better than "staunch," "awfully," and the sharp quick "yes!" when he agreed enthusiastically with a point made; and they may remember some of his favorite and most revealing compliments—"all wool and a yard wide," "a horse for work," and "clean as a hound's tooth."

Millis received his undergraduate degree at the University of Indiana in 1895, his M.A. in 1896, and took his doctorate at the University of Chicago in 1899. From 1902 to 1916 he taught at Arkansas, Stanford, and Kansas Universities and then in 1916 joined the faculty of the University of Chicago. In 1928, he became chairman of the economics department and held this position until he retired from the faculty in 1938. He was president of the American Economic Association in 1934-35, director of the National Bureau of Economic Research, and a founder and director of the Agricultural Economics Foundation.

During most of his academic career he was engaged in some kind of public service. He participated in the U. S. Immigration Commission's study on *Immigrants in Industry*, published in 1911, and directed a study of

health insurance for the State of Illinois in 1917. From 1919 to 1921 he was chairman of the Trade Board of the Chicago Men's Clothing Industry and from 1921 to 1923 and 1937 to 1940, chairman of the Board of Arbitration. Of this work Mr. Potofsky, president of the Amalgamated Clothing Workers once wrote, he "helped take the clothing industry out of the sweatshops and the industrial jungle." He was a member of the first National Labor Relations Board from 1934 to 1935 and was appointed by the President to several fact-finding boards on railway labor disputes. He was also appointed by Governor Horner of Illinois to be a member of the Illinois Commission on Unemployment. He made his influence felt in the writing and development of the National Labor Relations Act and the Social Security Act and in setting up the framework for the National War Labor Board.

In 1940, sources close to the White House urged him, in the President's name, to accept a position as umpire under the General Motors-UAW, CIO agreement. Since this was the first permanent umpire set-up in the newly organized mass production industries, it was extremely important that it be filled by the best man available. It was a position requiring scrupulous honesty, delicacy, tact, and the creative imagination to lay the groundwork for sound future relations. Millis held this position only a few months, but the groundwork was laid; today officials of the corporation and the union still speak of his wisdom and his fairness. He charted not only the future of relationships at General Motors but made arbitration respectable in mass production industries generally, and set the pattern for other companies and industries.

He had been umpire for only a few months when the President called him again, this time to become chairman of the National Labor Relations Board. More than once he said of this appointment, "I was dragged into that job by the President; I certainly was not a candidate for membership on the Board, much less the chairmanship." But his administration was marked by wisdom and fairness, as always, and when he resigned in June, 1945, because of failing health, it was from a Board whose reputation had grown through his service.

In the fall of 1945 he returned to the University of Chicago to become senior adviser to the newly formed Industrial Relations Center and to begin his analysis of the development of recent national labor policy. As co-author with one of his former students, Professor Emily Clark Brown of Vassar College, he had nearly completed a monumental volume, *From Wagner Act to Taft-Hartley: A Study of National Labor Policy and Labor Relations*[1] when he died on June 25, 1948, "with his boots on," as he had always hoped.

Although Millis is best known for his works in the field of labor, his major interest as a young man was public finance. As a contemporary of Seligman, Bullock, T. S. Adams, Hallander, and a few others who pioneered in the United States, he participated in the organization of the National Tax Association in 1907. While a young assistant professor from Leland Stanford University, he wrote a paper on "Business and Professional Taxes as Sources

[1] To be published by the University of Chicago Press in 1949.

of Local Revenue," arguing for more extensive use of such taxes as a supplement to levies on property, "so as to prevent these from becoming unduly burdensome." In the evolution of state income taxation, Simeon Leland points out, no one made a clearer diagnosis of the defects of the early laws and practices. It deserves, in Leland's opinion, a better place in the literature of state income taxes. It antedates both the work of Seligman and T. S. Adams in that field.

Even in these early years his work was practical and pioneering. At a time when scientific tax assessments were just being developed, Millis had his hand in making one, sleeves rolled up, doing, as usual, more than his share of the work. In Palo Alto, where he was then living, the general property tax was operating no more fairly than elsewhere and the tax roll was characterized by all sorts of assessment inequalities. Millis thought he could eliminate some of them. With the assistance of a local banker and building contractor, the three men rode over the city in a surrey estimating the land values and the cost of constructing the buildings in the town. The latter were reduced to the square foot or cubic basis which the contractor used in bidding for jobs. The result was a much better assessment than ever before—one substantially just as between neighbors. Rumor has it that this "revaluation" lasted for a considerable period.

Even after he transferred to "labor," Millis continued his interest in public finance. He was a keen critic of whatever he read and many students are in debt to him for suggestions from his early field.

Millis' writings are, of course, landmarks in the field of industrial relations. In a field where the rapid course of events makes writings unusually perishable, the three-volume series on the *Economics of Labor,* written in collaboration with Royal E. Montgomery of Cornell University, still constitutes the most authoritative and comprehensive analysis of modern labor economics for the period covered. The industry studies in *How Collective Bargaining Works,* which he planned and edited for the Twentieth Century Fund, set the pattern for a great many of the case studies now being developed in the field. His last work, on the policy implications of the Wagner and Taft-Hartley Acts, done in collaboration with Miss Brown, is in press. There is little question, however, but that it will have a profound effect on the development of future national labor policy.

His work—his scholarship and his wisdom—is undeniably preserved in his published writings, though admittedly much that is eloquent appears in his unpublished arbitrations. But it is preserved perhaps even more in the influence which his broad and humane philosophy exerted upon all who were privileged to work with him or under him, whether student, colleague, or official of management or labor.

People called him a man of sound common sense. But it was more than that. At the core of all he did was a deep pervading respect for his fellow man, a sense of responsibility, and a sense of justice. He believed he must do all he could to make individual achievement possible and to free individual capacity from the limits set by meager opportunity. He was generous, he sought to understand and he sought to help; but his rocklike sense of justice never

let personal interest, bias, or affection tilt the balance in favor of one individual or group over another.

He was a man of great humility and great modesty. He went out of his way to avoid credit, publicity, or public recognition and he recoiled from all that he felt was display—whether it was the wearing of his Phi Beta Kappa key or the periodic revision of the honors rendered him in *Who's Who*. Throughout his life he felt himself deeply indebted to his beloved, brilliant, and poetic wife whose intense sympathy and sensitivity supported his convictions and shone in his work.

He had a passion for truth, for the whole of it, and for common sense in its application to the solution of problems. As a scientist and a liberal, he was tolerant of much but never tolerant of dishonesty. He was a statesman and, as one of his colleagues once phrased it, a man "of wise judgment as to the mode by which and the rate of speed at which aspirations can be converted into attainable realities."

He was always willing to listen with sympathy and understanding to the problems of the numerous students under his direction as well as to those in other fields of economics who came to him as chairman of the department for a friendly word and a guiding hand. Yet he never sought to pry. "Millis," the saying was, "knows you have to eat," (and Millis frequently made eating possible). He was never too busy to give encouragement to any man or woman, whether student or young instructor. He was never so heavily loaded with work that he could not talk about the department, about research, about a personal problem, an idea, or a manuscript. He was never too busy to hear delightedly of the adventures of a young researcher getting his first taste of field interviews or of discovering exciting documents in union archives. When most harassed, he had time for a story or an anecdote that a student's encounter with Victor Olander or John Fitzpatrick had brought to mind. He felt all this, and the long hours that went with it, was his teacher's duty and he loved it all.

In later years many of his students wrote to him of how he had inspired them with new courage and ambition when the future looked bleak, how he alone had given them encouragement, and how he had been an oasis of friendliness, warmth, sympathy, and understanding.

He was forever willing to place other people's worries, other people's merits, the claims of other people's scholarship ahead of his own interest and his own health. This combination of sympathy and realism—this emphasis upon the use of concrete evidence in finding the solution that would make the "wheels go round," appears in all he did, in his instruction, his guidance of graduate students, his work in public law, even his recommendations on behalf of individuals.

In his teaching he expected his students to base their conclusions on concrete knowledge of how unions and business firms actually operated. Case studies of labor relations in particular industries and detailed studies of the character and effect of public policies assumed, therefore, singular importance. Union leaders and employers were brought to class to talk and to be

questioned; classes were taken to attend arbitration proceedings; and students were encouraged to attend union meetings. Students were expected to become familiar with the literature (and many of his students remember the voluminous bibliographies he provided), to carry on their own investigations, and to do extensive field work so as to broaden the base of factual knowledge and to enrich their understanding of it. He never seemed to enjoy abstract or theoretical reasoning. Indeed, wherever he dealt with abstract values and relationships, he painted his design with a broad brush. And yet he paid theory his respects in his teaching and put flesh upon its bare bones by illustrations from his rich experience.

His influence as a teacher, however, extended beyond those who specialized in his chosen field. At a time when labor unions were largely suspect, his thoroughness, his dispassionate honesty, his forthright and simple presentations of both sides opened his students' eyes and left many of them with a sense of social responsibility that enriched their later lives.

This same sympathy and realism he manifested as chairman of the economics department at the University of Chicago. At the time, some of the departments of that institution were run by their "heads" with an iron hand with little or no participation by other full professors. The opportunities for dictatorship and less than frank discussions of policies, personnel, and budget by colleagues of equal rank were numerous indeed. But under Millis, the men of full rank settled their common destinies, a factor which greatly added to the strength and prestige of the department. When men became professors, Millis handed them the budget and other documents pertaining to their collective affairs. There were no secrets, no feuds, and men dealt fairly with each other, aided by his impartial justice and sound judgment. He inspired leadership and confidence in his staff; they swore by him just as he stood up and fought for them.

His emphasis upon concrete fact and his judgment perhaps reached their maturest expression in his career as an arbitrator and as member of the first and chairman of the second NLRB. Millis was in his time perhaps the country's greatest arbitrator. He impressed both management and labor with his scrupulous fairness, his incorruptibility, and his ability to make a decision that would work. He made his decisions, he would say, like Bill Klem, the famous baseball umpire, "I calls 'em as I sees 'em." He believed that the arbitrator must direct his efforts to working himself out of a job. The greater the number of cases a permanent arbitrator was called upon to decide, the poorer, Millis felt, the arbitrator was. Millis believed that collective bargaining was designed to establish a rule of law in industrial relations and that an arbitrator or impartial chairman was useful, especially at the beginning, to help clarify the law and make plain the way it operated. And all his efforts were directed to having the men and women in industry settle their disputes themselves, once the law was plain, by following it, rather than by resort to arbitration or to government. Yet he never made his rulings or discussed his cases in terms of abstract rights or prerogatives either of management or of the union. He dealt always with the facts and specific issues in each

case and, at some stage of the proceedings, could usually be found in the plant, inspecting the machinery and talking with those who operated it. By analysing and developing the facts carefully and relating them to the provisions of the agreement or the law, he avoided futile debates about prerogatives and, as a result, was successful in developing, on the part of both sides an understanding of what they had to do if they wanted to get along together.

In later years, when he was arbitrator in the Chicago clothing market, he had an understanding that he did not have to decide a case if he thought the people could settle it for themselves. One of many such cases involved the discharge of a cutter in one of the clothing plants. Millis thought there were plenty of precedents by which this case could be settled and refused to take it. When representatives of the management and of the union came to see him, he told them that the manager of the company involved and the responsible official of the union both knew the agreement and the precedents and both knew what to do in a case of this kind. Accordingly, he sent the representatives back to tell the manager and the union official to settle the case according to their own knowledge. They did just that and the case never came back to him for decision.

The cooperative labor relations which he stimulated wherever he arbitrated had their roots in two fundamental principles. Millis believed that unions must have sufficient power to meet their responsibilities under collective agreements. In his arbitration cases, therefore, he worked to strengthen unions in this respect and made plain to employers that such was his intention. He believed also that employers must have sufficient flexibility to handle their affairs and enough power to get their work done efficiently without undue interference from the union or from the workers. He was a stickler for the management's being able to get its work done efficiently and being able to get the quantity and quality of work to which it was entitled.

In recent years he was disturbed by the trend towards high arbitration fees. He always remembered that half of the arbitrator's fee or salary came from working people, whose earnings were meager. When he agreed to become the umpire for the UAW, CIO and the General Motors Corporation under the terms of their collective agreement, he was offered, and refused, a large salary. He explained that he wanted only enough to live on, which was about what he had been earning at the University.

His service at the NLRB from 1940 on was perhaps his most trying and demanding, and yet it seems very likely that it was the crowning achievement of his career. It was his opportunity to administer an act which to him was the "foundation for much that is helpful in our civilization as it develops." He felt intensely that the act housed "values to our nation in economic, social and communal terms"—not only in better wages, hours and working conditions, but reduced turnover, increased stability, job security, and above and beyond all this, "industrial democracy or real representative government."

On his retirement from the Board in 1945 he intended to develop more fully and document these views on the significance of the Wagner Act. The

passage of the Taft-Hartley Act the next year intensified and broadened his purpose. In his last research with Miss Brown, he sought, therefore, to bring all his rich experience to bear on an analysis and creative criticism of our national labor policy.

Here again, in this last work, and perhaps more explicitly than ever, appear those concepts and that philosophy which had colored all his work though the years. Here he stated his belief in the importance of "responsible self-government in industry" as the "main, continuous, and needed support of responsible, intelligent, representative government in the body politic."

Here he emphasized again that the plant, rather than the court, was the place where most problems could best be solved, for "industrial relations have to do with problems involved in living and working together." He looked upon the solution of labor disputes much as one would look upon the solution of marital ones. Just as the divorce court appears only in extreme instances in the solution of marital difficulties, so too, Millis writes, should litigation appear only rarely in the solution of industrial disputes. "Losses in court fights in the field of industrial relations," he wrote, "may not, indeed frequently do not, end with the close of the suit."

Believing deeply as he did in the fundamental honesty and fairness of human beings, he sought for conditions which would promote these values. His experience in arbitration and at the NLRB had yielded ample instances of deficient responsibility among union officials and members and among employers. "On the other hand," he wrote, "most experienced men have a sense of fairness when they come to know the facts. The problem is how to make a sense of fairness and responsibility more general. What will assist in effectuating, and what will militate against, this end?"

And in spite of his discouragement over some of the recent trends in governmental labor policy, his last work reflects his continuing confidence that something could be done about difficult problems "without the effort necessarily begetting problems which outweigh the good effected." He spoke of his conviction "that cooperative thought and action on problems by those most directly concerned with them can accomplish much." Concretely, he thought that some of the difficult and controversial issues dealt with in the Taft-Hartley Act could have been, and should still be, worked out in conference under government auspices by the representatives of employers and labor and the public. Then government could play its proper role of providing the conditions under which the parties in industry could and would, in all but very exceptional cases, solve their own problems by democratic means, with due regard for the public interest.

He would doubtless have been encouraged by the startling redirection of national labor policy which occurred after his death. It is unfortunate, to say the least, that the country could not have benefited by his wisdom in that policy's formulation. Yet surely much that is good in it bears the imprint of his philosophy. And surely not a little of the hope for healthy relations in industry, for honest and creative bargaining, for wisdom and justice in administration, and for honest and creative scholarship, has its basis in his

influence. For the Millis wisdom has taken deep root in industry, in scholarship, and in the minds of those who draft our national policy. And its wholesome and humane effect will persist in men and women—in those who knew him and those who were affected by him—over the years.

Emily Clark Brown
Paul H. Douglas
Frederick H. Harbison
Louis Lazaroff
William M. Leiserson
Simeon Leland

BOOK REVIEWS

Economic Theory; General Economics

Économie et Intérêt: Exposition Nouvelle des Problèmes Fondamentaux Relatifs au Rôle Économique du Taux de l'Intérêt et de Leurs Solutions. By M. ALLAIS. (Paris: Imprimerie Nationale. 1946. Pp. 800.)

The author of *Économie et Intérêt,* M. Allais, is professor of general economics at the National School of Mines in Paris, and of economic theory at the Statistical Institute of the University of Paris. He is also chief engineer of the Corps des Mines.

His book is at once a piece of research, a textbook and a tract on social and economic policy. One of its distinctive features is its abstract and mathematical character. Although basic calculus is sufficient for the argument in most of the main text, a somewhat more elaborate but standard equipment is required for the argument in the technical appendices, which comprise 140 pages.

The outstanding weakness of this work arises from the fact that the author is not well acquainted with the Anglo-Saxon and Scandinavian literature. Notwithstanding the fact that much of his thinking is based on the writings of Irving Fisher, the only other modern Anglo-Saxon economists with whose work he is acquainted are J. M. Keynes and J. E. Meade. (There is also a reference to one article by J. R. Hicks.) There is no reference to Knut Wicksell's work, despite the fact that the author's cycle theory is almost identical to that of Wicksell. The implications of this limitation are obvious. The author has missed the basic modern contributions to the theory of interest, with the exception of the work of Keynes. Only too often he arrives independently at conclusions which for a long time have been part of the stock-in-trade in English-speaking or Scandinavian countries.

Following a long introduction which deals with basic concepts, definitions, and the mathematics of compounding and discounting, the author presents what amounts to a theory of interest rate determination in a real, stationary economy. In this basic economic model, money exists only as a unit of account, not as a medium of exchange. Credit transactions and even banks are present, but there is no circulating money. This construction enables him to introduce money into the picture, but to eliminate its "disturbing" effects. In such an economy investment and savings are functions of the rate of interest, and determine between them its equilibrium level. The conclusion is obvious, but the analysis leading to it is elegant and interesting.

Having completed the study of interest rate determination in a real, stationary economy, the author plunges into welfare economics. His two chapters on "Interest and Social Return" and "Interest and Social Productivity" constitute the foundation for his policy recommendations. It is unfortunate that here again the author does not seem to be acquainted with important contributions. Pareto and J. E. Meade seem to be his only sources. There is no

mention of Barone, Pigou, Hotelling, or A. Bergson. This omission turns out to be particularly serious, since his fundamental conclusion, that social product is a maximum when the rate of interest is zero, is ill-founded. Following Pareto's concepts he argues that social revenue is maximized under perfectly competitive conditions. This optimum position is not unique. The optimum points constitute a manifold infinity of values, corresponding to alternative distributions of income among individuals. He proceeds, then, to extend the proposition to the case of a dynamic but stationary economy. He argues that the time-shape of consumer expenditures is arbitrary from a welfare point of view. Individuals maximize their welfare with reference to a single point of time. Notwithstanding the fact that they take into account future satisfactions, they evaluate them with reference to the present. It can be seen, therefore, that in the general case (which includes both static and dynamic stationary states) the optimum points constitute a manifold infinity of values, corresponding to alternative distributions of income among individuals and to alternative time-shapes of consumption. For any given distribution of income and time-shape of consumption, perfect competition is optimal. His modification of Pareto's argument is merely an expression of his view that, although individuals are capable of making correct decisions in allocating their expenditures among competing goods and services in the present, they are incapable of making correct decisions with respect to saving. This conclusion is essential to the author, since it paves the way for his policy proposal that capital formation be determined by responsible government action rather than by free choice.

Next the author takes up the problem of optimum capital formation. Among all the stationary economies which satisfy the conditions of maximum social product, but the capital equipment of which is variable, there exists only one which satisfies the conditions of optimum capitalistic structure. Social product may be said to be a maximum only in this case of optimum capitalistic structure. This *maximum maximorum* obtains only when the rate of interest (in the production sector) is equal to zero. The author's proof of this proposition is not satisfactory. By treating units of factor services of the same kind, but performed at different periods of time, as homogeneous and interchangeable, he arrives at the conclusion that the presence of a positive or negative rate of discount prevents optimum allocation (which calls for equality of marginal products in different uses). A correct, generalized statement of the conditions of maximum product would have led to the conclusion that no single rate of interest is implied.[1] This position of the author is particularly unfortunate, since a great part of his policy platform is based on the assumption of the desirability of a zero rate of interest in the production sector.

The analytical climax and anticlimax of the book is reached in Chapter VIII where the author introduces circulating money into the picture. The performance of the author in this chapter is impressive, although uneven.

[1] See Paul Samuelson, *Foundations of Economic Analysis* (Cambridge, Harvard University Press, 1947), p. 233, note.

The demand for cash-balances is very aptly introduced into a model of economic unit behavior. The analysis runs essentially in terms of liquidity preference along Keynesian lines.[2] The author arrives at an integration of the savings-investment with the liquidity-preference theories of interest along lines which are generally parallel to the loanable fund theory. His construction, however, is entirely independent of the contribution of the Swedish school or that of D. H. Robertson, with which he does not seem to be acquainted.

The transition from the "unit of account" economy to a true monetary economy is not made abruptly but by successive approximations. The equilibrium and stability conditions of a monetary economy, in which demand for speculative cash-balances and money creation by the banking system are absent, are formulated first. For this type of economy, and as a first approximation, the rate of interest may be thought of as being determined by the propensities to invest and save, the price level being determined by the volume of cash-balances desired at this rate of interest. Monetary equilibrium is essentially defined in terms of the equality between the "pure" money rate and the "pure" claims' rate of interest. This equilibrium is stable. Any deviation from it generates forces that equalize the two rates.

Finally, the author turns to the case of a monetary economy in which both demand for speculative cash-balances and money creation by the banking system are present. This is the acid test of the book. The reader has gone through 360 pages concerning all types of simplified economies, and at long last he is ready to follow the author through the labyrinths of a full-bodied, down-to-earth economy. Unfortunately the author fails to lead through these labyrinths; he merely by-passes them. This is the anticlimax of the whole performance. The author argues that equilibrium conditions are roughly identical to those of the 100 per cent money, no-speculative-cash-balances economy. But equilibrium here is unstable. Any difference between the money and claims' pure rates of interest starts a cumulative process away from equilibrium, which comes to an end, in either direction, for reasons similar to those advanced by Wicksell in his *Geldzins und Güterpreize*. The analysis of the dynamics of disequilibrium is highly unsatisfactory. The author suddenly becomes a "literary" economist and is satisfied with vague generalities about a process which his technique is incapable of depicting. His micro-economics does not furnish him with tools adequate to deal with issues which even a simplified macro-static or macro-dynamic model could easily handle.

The upshot of the author's analysis is that money creation by the banking system and speculative cash-balances (thesaurization) are the determining *causes* of the instability and the cyclical behavior of our economic system. The implications for economic policy are obvious. Hundred per cent money and elimination of speculative cash-balances will stabilize our economy and eliminate cyclical fluctuations.

The final part of the manuscript deals with policy. The major objectives

[2] It must be stated emphatically, however, that liquidity preference is the only tool taken over from Keynes' *General Theory*.

are maximum social revenue and product and price stability. These objectives can be accomplished, the author argues, by *competitive planning*. Such planning would deal with structure rather than behavior, behavior being co-ordinated through the price system in a perfectly competitive economy. This structural planning involves at least the following measures: (a) a curb on monopolies; (b) a zero rate of interest in the production sector; (c) 100 per cent money; (d) elimination of the demand for speculative cash-balances.

Concerning the first item, the "competization" of the economy, the author is very vague. In fact he does not deal with it. Here again he seems to be unacquainted with the contributions of Oscar Lange and Abba Lerner. Concerning the zero rate of interest in the production sector, as well as the elimination of the demand for speculative cash-balances, he has some definite proposals to make. The rate of interest cannot become zero unless land is collectivized, since land-values become infinitely great as the rate of interest approaches zero. But this is not all, because, in so far as the unit of account is also circulating money, the demand for cash-balances becomes very great if not infinitely great as the rate of interest approaches zero. Not only must we collectivize land, then, but we must also curb the demand for idle cash-balances. This can be accomplished by a continuous devaluation of the value of circulating money in terms of a stable unit of account. A separation of the two functions of money is a prerequisite for the simultaneous achievement of price stability, a zero rate of interest, and the elimination of speculative cash-balances. It still is possible, of course, that spontaneous saving may not be sufficient to bring the rate of interest down to zero. The government can correct this by appropriate action, which may take the form of incentives or taxation.

This air-tight, no-interest, no-profit, 100 per cent-money, perfectly competitive economy constitutes the author's policy goal. One cannot help having an uneasy feeling that the author is developing a policy for a never-never land that has few if any similarities to the world around us. The author shows very little understanding of the forces and the mechanism of economic development. He makes a fetish of stability, and has taken extreme pains to build a strait jacket for an economy that does not fit his views.

The author's contribution to the theory of interest would be significant were it not for the fact that most of his results have been available in acceptable form for some time now. It is a pity that M. Allais has worked so hard to arrive independently at some conclusions already well established. In fairness to him, it must be recognized that he has attempted a task of great magnitude, and that he has handled it with unusual skill.

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Economic Analysis. By Kenneth E. Boulding. Rev. ed. (New York: Harper. 1948. Pp. xxvi, 884. $5.00.)

In reviewing the second edition of a book as well known as Professor Boulding's *Economic Analysis*, the reviewer must confine himself to discussing what is new in the new edition. There are few straightforward additions of

new material, however, and the main change is one of approach. In the new edition, the chapters on money, banking, and international economics of the first edition have been partly changed and partly expanded into an integrated discussion of macroeconomics. This change has necessitated a very welcome reorganization of the book, which now consists of four parts. Part 1, on Supply and Demand, consists of the first twelve chapters of the old edition with only minor changes; Part 2 contains the new approach to Macroeconomics; Part 3 on Marginal Analysis incorporates the more elementary chapters of the similarly entitled 2nd part of the first edition; while the more difficult chapters have been taken out and assembled, together with some additional material, in Part 4, called More Advanced Analysis.

Professor Boulding's handling of macroeconomics is up to his usual high standards. He begins by pointing out the limitations of partial equilibrium analysis and the need for an aggregate approach, showing that "many propositions which are true of individuals or of small groups turn out to be untrue when we are considering the system as a whole" (p. 260). He gives an excellent discussion of aggregate concepts (Chaps. 13 and 14); he shows the fundamental identity between aggregate receipts and expenditures (Chap. 15); he introduces sequence analysis to prove the possibility of underemployment equilibrium (Chap. 15); and he discusses problems of national economic policy (Chap. 19).

All this is admirably lucid and very well done; but it provides only the skeleton of macroeconomics, while other parts of the book contain quite a lot of meat. This asymmetry would not be disturbing if the main purpose of the book were to provide the tools of partial equilibrium analysis and the discussion of macroeconomics were aimed merely at showing the connection between partial and aggregate analysis. But the author quite obviously aims at a complete coverage of all fields of economics; and by the standard of his aims there is a lack of balance between his detailed partial equilibrium analysis and his "sketch of macroeconomic principles."

To some extent this is unavoidable and explained by the relatively recent emergence of macroeconomics as a subject. (The author himself, who is aware of this lack of balance, explains it in this way.) But to a large extent it is also due to Professor Boulding's insistence on discussing macroeconomics on the same high level of abstraction and general validity on which he discusses the theory of consumer's choice and the firm's production function. This lends formal elegance and neatness to the discussion; but it causes both author and reader to overlook the main advantage of aggregate analysis: our ability to say more about the behavior of a large group than about that of an individual. It is the very essence of macroeconomics that, because group behavior is more regular than the behavior of any single member of the group, we can establish statistical laws and make specific statements about a nation's reaction to a change in incomes, or prices, or liquid asset holdings, while we can make only very general statements about the individual's reaction to the same changes.

This is not brought out at all by Professor Boulding. His discussion of the multiplier concept and the consumption function is implicit and hidden in

footnotes and examples. He mentions the parallel movement of consumers' expenditure and business investment in the interwar period as the basis of the "Keynesian view"; but he does not discuss it and warns that "conclusions must not be drawn too hastily as to the nature of the causal relationships involved" (p. 404). There can be no doubt that we are very far from a complete understanding of these statistical relations and that hasty conclusions have been drawn; nevertheless, a fuller discussion of these concepts and relations, with due warning of our rudimentary knowledge of them, would have been preferable to the author's refusal to discuss any statistical law.

Most of the other changes in the book are contained in Part 4. There is a new chapter on indifference curve analysis (Chap. 34), which applies this technique to problems of taxation and the measurement of the gain from trade. The latter is expressed in terms of the buyer's and seller's surplus; and while the discussion is clear, it is not simple and makes one wonder why the author did not use the much simpler approach of superimposed indifference maps. Another important addition is a new discussion of investment in the individual firm, contained in Chapter 36. This chapter now constitutes by far the best introduction to modern capital theory known to this reviewer. It contains the essence of the controversy between the Austrians on the one hand and Wicksell, Knight and Kaldor on the other; and it should be read by every student of capital theory. The book also contains a new section on the theory of profits (in Chapter 37) and a very good new appendix on the literature of economics.

In general, the new edition is an improvement over the old; and the book remains, in the reviewer's opinion, the best text on partial equilibrium analysis at the intermediate level. Its coverage in this field is amazingly complete. It contains the best discussion of the theory of production in the English language, the only detailed discussion of the behavior of the individual worker, and the clearest statement of the fundamentals of capital theory. Owing to the omissions discussed above, the new edition is not a "Principles"; but the days of the "Principles" are probably past beyond recall. I doubt very much if today it is either feasible or desirable to deal with the whole body of economics in one volume on any but the beginner's level.

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Grundlagen der Theoretischen Volkswirtschaftslehre. By HEINRICH VON STACKELBERG. (Bern: A. Francke. 1948. Pp. xvi, 368. 19.50 sw. fr.; cloth, 23.50 sw. fr.)

This is the last work of the well-known German theorist. His untimely death, at the age of 41, occurred in October of 1946 while he was visiting professor of the University of Madrid. The book, completed by the author, appeared first in Spain shortly before his death. The German manuscript was published last year in Switzerland under the editorship of Professor Valentin F. Wagner who contributed a preface to the book.

The present "Foundation of Economic Theory" is a revised and greatly enlarged edition of the former "Outline of Economic Theory." This earlier

book appeared in Germany in 1943. It practically remained unknown because almost the whole edition was destroyed in an Allied air raid. Both books are limited to the theory of micro-economics. There is no trace of the influence of Keynes. Generous tribute is paid to the works of Eucken, Hicks and Allen, Amoroso, Chamberlin, and Triffin. Other contemporary American writers are not mentioned.

The book is carefully organized; its presentation is exceptionally clear. All important theorems are presented in their algebraic and geometric forms, usually accompanied by further explanations in small print. The literary style is appealing; sentences are relatively short. Candidates for degrees will find it worth their while to select this book as a text for their language requirement. They will not only learn the German economic vocabulary but also review modern theory for their departmental examination. For the book is written as a text for students, a bit above the level of seniors. In its logical consistency and in its mastery of the principles, the book compares favorably with the respective texts in this country, as a review of its leading ideas will indicate.

The new book is divided into six parts. Part One (pp. 1-28) describes specialization, the circular flow, Fisher's equation of exchange, and a stable price level as the framework of the static economy. Part Two (pp. 29-104) deals with the theory of production, as well as the problem of time in production. Part Three (pp. 105-60) gives the theory of the household, considering income, demand, and savings of the household as well as its reactions to changes in prices and incomes. The theory of prices constitutes Part Four (pp. 161-256). Discussion of prices under perfect competition, monopoly and oligopoly is supplemented by governmental price regulation, and auxiliary price factors, like inertia and cartels. Part Five (pp. 257-332) comprises the theory of distribution. Rents, wages and profits receive relatively less space than the theory of capital and interest. An evaluation of the role of perfect competition as the organizing principle of the modern economy concludes the book.

Contrary to tradition, the author begins his book with the theory of production of the firm. Central to his theme is the principle of diminishing returns. It is presented in its modern form of total, average, and marginal returns as well as the rate of substitution and complementarity. The principle of marginal productivity is even applied to money. Expressing the value of the marginal products, in terms of a stable money unit, the author speaks of the principle of the "weighted marginal productivity" and presents the "principle for the equalizing of the marginal returns of money." When applied to the firm, the principle of weighted marginal productivity determines the demand, the principle of marginal cost determines the supply for the factors of production. In an equilibrium situation, the price of factors of production is then equal to the values of these marginal quantities. In discussing cost, the author translates returns into cost concepts. Increasing returns indicate declining cost. The principle of diminishing returns is thus the obverse of the law of increasing marginal cost. Cost and return concept are thus correlated and both together explain the behavior of the firm in a static economy.

The revised edition brings a new chapter on the element of time in pro-

duction. Böhm-Bawerk's theory of increased productivity through the choice of more roundabout methods of production is translated into a marginal principle. Stackelberg maintains that the element of time is governed by marginal productivity, if this principle has been properly refined. Hence, the author develops his principle of diminishing marginal productivity over time. This was published in an article in 1941 and the book contains only an abbreviated version of the principle. A producer, the author assumes, has a distinct plan for each act of investment. He compensates factors according to their discounted marginal values. The producer's most favorable period of production is obtained when the percentage increase in the marginal productivity of the respective factor is proportional to the equilibrium rate of interest. The rate of interest is thus not only a measuring rod of the respective periods of production but also of the marginal productivities of factors over time.

The author examines the merits of the marginal utility and indifference theories in his discussion of the household. For him, the indifference theory has to replace the first law of Gossen because utilities are subjective; it is neither possible nor necessary to measure them. However, the second law of Gossen is accepted as a tested fact and translated into the "balance equation" of the household in which all the marginal utilities are of equal value. (In comparing the marginal rate of substitution with marginal productivity, Stackelberg suggests two new technical terms. The curves of equal returns from factors, called *isoquants* by Frisch, are given the Greek name *isophores*; the corresponding curves for products are dubbed *isotimes*). Under the heading of saving of the household, the element of time is analysed similarly to the one in production. In arranging his streams of income so as to obtain equal satisfaction in each income period, the consumer acts according to the marginal rate of substitution over time. In dividing his income between savings and consumption, the consumer is guided by the rule of the "balance equation over time." The concluding chapters in this section on income and substitution effects, following Hicks and Frisch, are noticeable for the author's attempt to incorporate the law of Engel and the Giffen paradox into the theory of income effects.

Perfect competition, single monopoly, single monopsony, and bilateral monopoly comprise the first part of the theory of prices. The cobweb theorem is presented as an extension of the competitive price, resulting from delayed reaction and long-run adjustment of producers to changes in prices. In presenting single monopoly and monopsony, the author follows mainly Amoroso. "Cournot's point" indicates equality of marginal revenue and marginal cost for the monopolist. The "purchasing curve" of the monopsonist is derived from the marginal outlay curve of sellers. (Stackelberg argues against using the term monoposony because its Greek meaning is "demand for meat"). The "curve of exploitation" is limited to the case of a price which covers little more than the variable cost of the seller. The theory of bilateral monopoly is merely a repetition of the two previous cases, in which first the monopolist and then the monopsonist is said to dominate the situation. The respective gains are called producer's or consumer's rent.

Duopoly is regarded as the simplest form of oligopoly. Four kinds of

duopoly are distinguished. When both producers are dependent upon each other, we have "Cournot's duopoly." When both producers act independently of each other, the result is "Bowley's duopoly." The two other possible reactions are called "asymmetrical duopolies." All four forms find a detailed and admirable geometric presentation. There is, however, no explicit discussion of pure oligopoly; the whole discussion of monopolistic competition—including even price discrimination and polypolistic competition—does not exceed six pages in all. Two reasons seem to explain this scanty treatment of monopolistic competition. All imperfect market forms, excluding pure monopoly and monopsony, are said to lead to an indeterminate pricing situation. This problem the author had already analyzed in his chapter on duopoly; monopolistic competition did not seem to have theoretical significance in itself. There is also a practical reason for this attitude. Product differentiation and price discrimination are either less common in Europe or are closely associated with cartels. These were regarded as a subtype of monopoly and presented in the chapter on that subject.

The economic influence of the state induced Stackelberg to two modifications of static theory. First, economic policy was considered a privilege of the government instead of being the sum total of all economic actions, whether by private or public agencies. Second, governmental price regulation is considered a part of pure theory. Consequently, he devotes a chapter to this problem. Although different in their aims, governmentally regulated prices fall under the theory of monopoly because they are set like monopoly prices. Governmental prices can be of four different types. They can either be maximum or minimum prices as well as unchanging (*Festpreis*) or target prices. Any one of these prices can be equal to the competitive price. If the former is below or above the latter, the government will have to regulate demand and/or supply—like a monopolist. The government, too, has to obtain an equilibrium in the market, either by changing the market factors or the structure of the market itself. Government prices must thus not necessarily fail but can be just as permanent and successful as cartel prices.

The theory of marginal productivity furnishes the guiding principle for the explanation of functional distribution. Most theorems developed in the theory of production are carefully applied in the chapters on rent and wages. Yet there is no theory of an independent supply of land and labor. Labor unions are not mentioned; pure competition is assumed in all distribution chapters. The extensive chapter on interest presents a modernized version of Böhm-Bawerk's propositions. Money value is kept constant consistently; the liquidity preference of holders is not mentioned. Profit is interpreted as a differential rent which is not an element of cost. Ricardo's differential rent theory is thus applied to the special gains of entrepreneurs.

The concluding part evaluates briefly the relevance of pure theory. Presented are three propositions. Perfect competition is superior to all other economic systems; the government may organize a quasi-competitive system which may be equally effective; the Soviet economy is the system of a "total profit-seeking monopoly." These attempts to interpret existing economies in terms of pure theory reveal the usual and inevitable helplessness of the micro-

economist. All kinds of comparison have been made in the past. Perfect competition has been identified with liberalism and with socialism, and it was present as an economic ideal to fascist dictators.[1] Moreover, microeconomists have called for an additional theory—such as dynamics, welfare economics, uncertainty, money and business cycles (Stackelberg's position), or macroeconomics. They all were at some time presented as the necessary link between pure theory and economic policy. Recent attempts to coordinate microeconomics and macroeconomics are hardly promising. They have revealed the fact that a comprehensive theory of macroeconomics calls for a new theory of the firm, the household, and especially of distribution. It thus seems fair to say that Stackelberg's lifework culminated in the most comprehensive German presentation of microeconomic theory. It appeared at a time when many American economists have ceased to believe in the practical relevance of microeconomics.

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[1] For the theory on the governmentally directed competitive economy (*gebundener Wettbewerb*) see Günter Schmölders (ed), *Der Wettbewerb als Mittel volkswirtschaftlicher Leistungssteigerung und Leistungsauslese* (Berlin, 1942).

Grundzuege der Theoretischen Nationaloekonomie. By ALFRED AMONN. (Bern: A. Francke. 1948. Pp. 200. 11.00 sw. fr.)

This concise outline of economic theory by the senior professor of Berne University, Switzerland, presents the main principles of modern value and price theory. In his previous books, the author distinguished between pure economic theory and "the more practically oriented" theory of welfare economics. The former deals with the principles of the individualistically organized exchange economy; the latter considers the aims and means of economic welfare and is thus the necessary link between pure theory and economic policy.

The slender volume is limited to pure theory, in which case the author is more indebted to Pareto (price interdependence) than to Hicks and other contemporary writers. The book considers five problems. It begins with the general theory of prices; deals in detail with prices under conditions of joint as well as composite demand and supply; presents the theory of distribution; discusses the relationship between money and prices (quantity theory); gives finally the theory of international values and rates of exchange. The intention is to write an introduction into theory for beginners. Yet the exceptionally long sentences, and often involved sentence structure, will complicate the reading of this book by candidates for degrees in this country.

The author rejects the marginal productivity theory and claims to have come across a new theory of distribution. He emphasizes the interaction of productive factors in the process of production. This induces him to speak of capital products or labor products, according to which factor was primarily responsible for the creation of a series of goods. In an equilibrium situation there must not only be full correspondence between the prices of the productive factors and their respective products but also, it seems, between the

various quantities of productive factors and their respective products. The "new theory" is called the necessary price differentiation between productive factors and products (*Produktpreisdifferenziertheit*).

According to the author, this new theory differs in two respects from the traditional theory of marginal productivity. Although the supply price of productive factors is normally determined by their respective marginal costs, it would be incorrect to say that the value of the various factors was "determined" by their respective marginal productivitics. The value of the marginal product is just one of the variables that influences output and substitution decisions. Equally important is the extent of production as well as the price ratios between factors and final products. The marginal productivity theory is thus said to engage in circular reasoning and can thus not explain satisfactorily the functional distribution of income. Moreover, the demand price for a productive factor is based upon a joint demand for various factors used simultaneously. This problem of substitutability of factors, the author implies, cannot be handled adequately by the traditional theory.

Careful reading of the chapters on rent, interest, and wages reveals essentially the "real approach" of the traditional marginal productivity theory. Emphasis upon the necessary correspondence between factor and product prices, upon the variable proportions of factors, or upon total demand and supply, does not induce the author to employ either the "isoquant" or the "aggregate" or any other mode of analysis. Instead, the prices of the various factors are discussed without stating strictly the usual limiting assumptions. This enables the author to consider such problems as negative rent, irregular shape of the supply curve of labor, or the missing inverse relationship between supply of capital and interest. The impact of these and other problems upon the tendency towards a general equilibrium is not studied. Deviations from the equilibrium position merely lead to frictional profits which are transitional in nature. In consequence, the new theory brings essentially the traditional theory of marginal productivity stated in a somewhat less familiar form.

An appendix of eighteen pages evaluating critically the last book of Stackelberg merits the attention of theoretical economists.

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Economic History; National Economies

Austria from Habsburg to Hitler. By CHARLES A. GULICK. (Berkeley and Los Angeles: University of California Press. 1948. Two vols. Pp. xxiii, 1906. $20.00.)

Professor Gulick's study is essentially an account of the policies and achievements of Austrian Social Democracy between the two world wars, and a detailed history of the events that led to the movement's violent suppression. This story has been told elsewhere, but what distinguishes *Austria from Habsburg to Hitler* is its encyclopedic character. Professor Gulick, who

spent thirteen years at his task, has combed the relevant literature with microscopic care, and adduced an incredible amount of data in support of his conclusions, which are stated vigorously throughout. The author makes no concessions to those whom he considers responsible for the suspension and termination of democratic government in Austria, and some notion of the book's flavor may be gleaned from his prefatory remark that "I have no patience with the intellectual contortionist who apparently thinks he is 'unscientific' unless he tries to get a part of each foot on each side of every question that is faintly controversial." Professor Gulick has followed his own precepts by planting both feet firmly on the side of social democracy.

The theme of the story is the struggle waged within the rump republic of Austria, a state of doubtful economic viability and with the added handicap of a political and cultural schism between the industrial workers and the peasants, between a socialist party that professed Marxism but practiced democracy, and a clerical party that professed democracy but betrayed it in the end. The author tends to personify the conflict, and presents it in terms of the policies advocated by the leading protagonists: Otto Bauer, the brilliant scholar who attained undisputed leadership of the Social Democratic Party, and Monsignor Ignaz Seipel, the Christian Social chancellor of Austria whom Professor Gulick regards as the evil genius of the republic, a master political strategist but a "profoundly undemocratic man." The climax came in 1927, when spontaneous riots and their suppression by the government revealed weaknesses in the socialist position that had not been appreciated either by the socialists themselves or by their opponents. Thereafter, the incursions of fascism became bolder, while the socialists were increasingly on the defensive, the process ending in the tragic events of February, 1934 and the forcible dissolution of the Social Democratic Party.

The author maintains that fascism was brought to Austria not by the Germans but "by a combination of indigenous Fascists with Roman Catholic political leaders who either betrayed their one-time political principles, or who never had any to betray." These are strong charges indeed, and adherents of the old Christian Social Party are likely to take exception to them. It may be that Professor Gulick has occasionally gone too far in his criticism, and that he does not stress sufficiently the fact that the Christian Social Party included within its ranks, and among its leadership, many good democrats. Nevertheless, the evidence he adduces against the principal leaders of the Catholic party, Seipel, Dollfuss and Schuschnigg, drawn mainly from their own public utterances and writings, is very damaging, and it is difficult to escape the conclusion that all three were totalitarian in thought and in deed.

While *Austria from Habsburg to Hitler* is forbidding in bulk at first sight, the second volume, devoted almost entirely to a detailed account of the development and triumph of Austrian fascism, is of interest primarily to the specialist in central European history, and may be skipped over rapidly by the economist. An exception is Chapter XXVII, in which Professor Gulick contrasts the doctrines and the practices of Austro-Marxism, and comes to the conclusion that while the Austrian socialists thought of themselves, and

were generally regarded, as being to the left of the mainstream of European social democracy, they acted as reformists. A gradual, almost imperceptible trend to the right resulted from the day-to-day realities involved in administering the municipality of Vienna and participating in parliamentary life.[1]

Professor Gulick might have made clearer a matter of which he indicated his awareness,[2] the fact that while the Marxist ideology provided the labor movement with a unifying force, it was by no means an unmitigated blessing. The legacy of decades of Marxian indoctrination still remains to plague continental socialism in its struggle for survival against communism.

It is the material in Volume I, however, upon which the interest of the economist will center. After what amounts to a good-sized tome on the origins of Austrian socialism, and on the turbulent events accompanying the formation of the Austrian republic, during which the socialists fought a tactically brilliant campaign to limit excessive political radicalism among the workers, Professor Gulick turns to the impressive practical achievements of the socialists in their stronghold of Vienna.

Several of the ensuing chapters are actually monographs that can be read with profit divorced from the remainder of the book. Chapter X comprises an 80-page history of Austrian social legislation, providing a useful summary of this experience. Chapter XII deals with the cooperative movement, which was important to the socialists politically as well as economically. Socialist reform of the Viennese tax system, resulting in a substantial shift of the burden of taxation from the workers to propertied groups, is discussed in Chapter XIII, where Professor Gulick considers and refutes the charges that the new system stifled private building construction, created unemployment in the luxury trades, and prevented private capital formation.

Policies in the field of taxation rendered feasible the famous public housing projects of Vienna, an elaborate system of social welfare, and ambitious educational and cultural programs. The chapters covering some of these subjects suffer from prolixity; for example, much of the material on the socialist youth organizations, on education, and on cultural work could have been compressed greatly without impairing the value of the book. One feels that Professor Gulick's admiration for the impressive apparatus of the socialist party occasionally led him to overstate the novelty and significance of its achievements.

Despite the fact that the essential core of his study is the labor movement, Professor Gulick devotes only a single chapter to the history and practices of the trade unions. The reader will search in vain for adequate discussions of collective bargaining procedures, collective agreements, working rules, and other union policies which are everywhere the vital concern of the trade unionist.

[1] It may be of interest to note that I have reached the same conclusion regarding the Norwegian Labor Party, which was usually paired with Austrian social democracy in the European political spectrum.

[2] *E.g.*, p. 439: "The orthodox Marxian or Englesian attitude formed a handicap which had to be overcome before the party could put its full weight into the constructive housing schemes of the city council of Vienna."

The neglect of this phase of Austrian labor history may possibly be ascribed to the author's oft-repeated view that Austrian trade unionism "was predominantly political throughout its history." He devotes a portion of his trade union chapter to a critique of Perlman's view that "manual groups . . . have had their economic attitudes basically determined by a consciousness of scarcity of opportunity," whereas middle-class intellectuals are absorbed in philosophical abstractions, leading to "a mutual divergence in labor ideology between the 'mentality' of the trade unions and the 'mentality' of the intellectuals." On the contrary, asserts Gulick, there was no real difference in outlook between the two branches of the Austrian labor movement. The trade unions, far from evincing any desire to limit themselves to the narrow economic horizons envisioned by Perlman, "came to regard parliamentary activities as the fulcrum of labor policy," and "were increasingly regarded as the economic arm of an essentially political movement."

There was much in the peculiar circumstances of Austria that justifies Professor Gulick's approach. For example, while in 1920 the Social Democratic Party had 335,000 members against 900,000 for the "free" non-Catholic trade unions, by 1930 party membership had reached 698,000, while trade union membership fell to 655,000. Thus party membership actually came to exceed trade union membership, a situation that is probably unique in the annals of western socialism. It may be that the precarious economy of Austria precluded substantial economic gains through the traditional methods of trade unionism, and that the Viennese workers came to regard "the municipal apartments, the health and recreational services, and the reformed schools of the Socialist administration" as the chief source of increased real income.

Nevertheless, there were trade unions, and they were not entirely absorbed with politics. Some of the things that Professor Gulick himself comments upon indicate that the Perlman thesis, perhaps overstated as a general theory, does contain an important element of truth in its emphasis upon job consciousness. For example, the repeated and largely unsuccessful attempts to reorganize the Austrian federation of labor along industrial lines (pp. 272-90), attest to the continued strength of craft separatism, in the face of the class consciousness preached by the socialists. The author seems to think that the apparent trade union interest in the problem of structure was not fundamental, for he remarks that "when the primate of the party was established, the trade-union wing, as modern psychology would style it, almost 'fled' into reorganization." Moreover, he appears to attribute the conflicts over industrial unionism, as well as the persistence of jurisdictional disputes, to "oligarchic tendencies [which] unavoidably arise even within the framework of the most democratic institutions." Yet at another point he records these interesting facts about the 1919 congress of the Federation: "Between the last (1913) and the present (1919) congress lay the fateful period of war and revolution; nevertheless, the report of the *Kommission* on these meaningful years was almost neglected. But when the congress turned to the question of reorganization no less than 44 individuals asked for permission to speak, and before the debate was closed 26 had expressed their views on industrial unionism."

Another illustration of differences in outlook between the party and the trade unions is afforded by the crucial issue of coalition. After leaving the government in 1920, the socialists were continually weighing the desirability of returning. By re-entering into a coalition with the Christian Social Party, they might have obtained several cabinet posts, and perhaps have averted the transformation of the army and the police, which had been radicalized after the first world war, into instruments that could be used against them. On the other hand, they would have had to share responsibility for some unpalatable economic and political decisions that were inevitable under the circumstances.

The socialists were, as Professor Gulick shows, on the horns of an almost insoluble dilemma. To remain in the government after 1920 might have strengthened the communists and impaired the unity of the labor movement. On the other hand, there were not a few within the party who agreed with Karl Renner that "the July [1927] occurrences were a consequence of the steady refusal to join a coalition government in past years. Only thus had it been possible for the opponents to transform police and army into willing tools of their policy and to arm the Heimwehr."

The trade union leadership appears to have shared Renner's views. Gulick quotes a revealing statement by a prominent trade unionist which perhaps epitomizes the divergent views of the political and economic branches of the labor movement: "We trade union men feel it on our hides that it is not a matter of indifference for the proletariat whether it is our highly respected comrade Hanusch who sits in the ministry of social administration, or a Pauer or even a Schmitz." (The latter two were non-socialist politicians, while Hanusch was a leading trade unionist.)

No one is likely to agree in every essential with the analysis and interpretations in *Austria from Habsburg to Hitler*. Nevertheless, reading this case study of democratic socialism in action affords an exciting intellectual adventure. It is far more than the history of the labor movement in a small country, for many of the problems treated are relevant today in all of western Europe: the constant threat of communism on the left, the dangers and advantages of coalition with center groups, the relationships between party and trade unions, the quest for an ideology suited to present realities. I hope that Professor Gulick's important work will receive the wide attention that it merits.

WALTER GALENSON

Harvard University

The Brazilian Economy. By HENRY WILLIAM SPIEGEL. (Philadelphia: Blakiston Co. 1949. Pp. xv, 238. $4.50.)

This is a very valuable contribution to the growing literature on the economic problems of the other American republics. It is only in the last few years that any number of American scholars have turned their attention to the nations to the South and problems which they have to face. The works of Wyeth and Hughlett on the industrialization of Latin American were among the first studies of this kind, while the work of Ellsworth on Chile was one of the first attempts to tackle the problems facing one particular

country. The present work by Dr. Spiegel, who is an associate professor of economics at the Catholic University of America, is a welcome addition to this field.

Some of the difficulties of those who attempt to deal with the economic problems of the Latin American region are evidenced in Dr. Spiegel's work. With regard to most subjects with which the author deals, the statistical material is very sketchy. Dr. Spiegel does a valuable job in trying to assess the value of the available data, and to use them to get a general picture of the economy of the nation. However, as he indicates, about the only area in which statistical material is at all adequate is that of foreign trade. Because of the importance of taxes on imports and exports as a source of revenue for the government of Brazil, it has for many years kept quite accurate figures in this field.

In such fields as population, labor, agricultural production, national income, and cost of living, the material available for the economics student varies from not so good to nothing at all. And what is true of Brazil is true to a greater or lesser degree of most of the other Latin American nations. Perhaps Argentina, Chile and one or two other countries would rate a bit better in the quality of economic data available, but for the most part the Latin Americans have not been particularly interested in the collection and correlation of economic statistics.

Dr. Spiegel's book is notable for reasons other than the fact that it is a pioneer in the field. It is notable because it attempts to apply the national income approach to a comparatively "backward" nation. Indeed, he starts out his study with a chapter on the national income, indicating the distribution of income payments to various elements in the community, and discussing the problems of savings and investment in a country in which the great majority of the people have very small incomes.

The author then goes on to deal with what is perhaps the outstanding characteristic of the Brazilian economy, the fact that for more than one hundred years the country has been experiencing a virtually uninterrupted inflation. Dr. Spiegel concludes that this inflationary spiral was brought about in large part by the very large volume of exports, which resulted in the release in Brazil of a large quantity of money for which there was comparatively little offset in domestic production. At the same time, he notes that until the first World War, at least, these very large exports merely served to pay for the equally large imports of capital.

This long-range Brazilian inflation has generally been accompanied, according to Dr. Spiegel, by budget deficits and currency depreciation in addition to the export surpluses and inflow of capital which we have already noted. Since 1942, however, the trend towards currency depreciation has been halted, though prices have gone up even more rapidly than before. This is in large part due to the fact that exports are influenced more by the lack of domestic mass purchasing power than by the requirements of the balance of payments.

Dr. Spiegel feels that the fundamental necessity in Brazil is to increase the productivity of its agriculture and industry. This has been held back heretofore by the cheapness of labor. The author maintains that Brazilian

labor is still cheaper than that of the United States and other industrial nations, even when the very much lower productivity of the Brazilian worker is considered. He notes, however, that the power of the workers' organizations is growing and that labor costs are therefore rising, and he believes that sooner or later that tendency will make it necessary for Brazilian employers to introduce more machines and more efficient machines than have hitherto characterized Brazilian industry. He notes that in the textile industry this tendency is apparently already under way.

Industrialization is the principal method upon which Brazil must rely in the years just ahead, according to Dr. Spiegel. He discusses at some length the problems involved in industrialization, such as a small market, difficult transportation, scanty capital resources. In this connection, one misses a more adequate discussion of some of the labor problems facing the new manufacturing industries. He feels that much of the capital for the development of industry in Brazil must come from abroad. He notes that there was a strong emphasis on economic nationalism between the two wars, but that since World War Two restrictions on foreign capital have tended to be relaxed. He believes, however, that, though the Brazilians will tend to welcome foreign capital, particularly in manufacturing enterprises, it will have to come to Brazil on more equitable terms than were customary in the earlier era.

Dr. Spiegel also believes, on the basis of the evidence which he presents, that the Brazilian government will itself play a large part in this industrialization process. Not only will it extend the customary kinds of aid to infant industries—tariffs, tax reductions, subsidies—but the government itself will establish or help to establish many of these industries. He notes five such heavy industrial enterprises in which the government has been the prime mover during the last decade, and feels that this trend will continue. This, as Dr. Spiegel points out, is quite consistent with the tradition of economic behavoir in Brazil, where the ideas of *laissez faire* never had more than fleeting popularity.

In addition to these problems directly concerned with the growth of manufacturing, Dr. Spiegel devotes his attention to the agriculture and transportation of the country, noting the difficulties of the latter, and noting the changing nature of the former—the decline of the old staple crops of coffee, cotton and sugar, and the growing tendency towards diversification of agricultural production. He feels that the trend during the next generation will be towards more emphasis on food crops for consumption within Brazil, and less emphasis on the great export crops.

This volume is a trail blazer in its field. It is a very readable and very useful work not only for those particularly interested in Latin American affairs, but for anyone who is interested in the basic problem of the development of "backward" countries. And, if President Truman's inaugural address is any indication, this is a problem in which Americans will become increasingly interested.

ROBERT J. ALEXANDER

Rutgers University

Studies in the Development of Capitalism. By MAURICE DOBB. Rev. ed. (New York: International Publishers. 1948. Pp. ix, 396. $3.50.)

Maurice Dobb, lecturer in economics at the University of Cambridge, is best known for his studies of Soviet economy and his criticism in avowedly Marxian terms of current economic theory. In turning to economic history, he steps out of his customary role and addresses a subject in which he is not a specialist and for which he relies upon the findings of the more prominent workers in the vineyard. In his endeavor he retains his refreshingly frank Marxian position and views history from that particular vantage point.

Being, apparently, a fearless intellectual, Professor Dobb attacks at once one of the most bothersome points of his subject—the term capitalism. He will have none of Sombart's vagueness, which regards the institution as a *Zeitgeist*, or of the German historical school's attempt to identify capitalism with money economy. He lines up with Marx in the belief that what distinguishes capitalism most particularly and sets the period of capitalism off most distinctly from other periods of history is that under it workers were deprived of the means of production, that these means were owned by investors, and that workers were thereby exploited by their employers. Basic to this entire presentation is the labor theory of value.

This fundamental proposition conditions the things Dobb looks for in the development of capitalism. How, when, and why did workers lose the means of production; how, when, and why was ownership acquired by an employing class; how has the employing class used its economic and political power to maximize benefits to itself; and what have been the recent trends within the institution which may be projected into the future?

These concerns have led Dobb to throw overboard such categories as "merchant capitalism" and the Sombartian stages in capitalism. He adopts stages which are determined by the growth of the dispossessed, industrial proletariat. In his view the crucial turning points in England were the end of the "sixteenth century and the beginning of the seventeenth when capital began to penetrate production on a considerable scale" (p. 18) and in the late eighteenth and early nineteenth centuries with the industrial revolution. The Bourgeois got control of the means of production not primarily by accumulating capital out of income, but by taking advantage of shifting price differentials between types of property.

The ownership-of-the-means-of-production class has used its economic position to get political power and has sought legislation to give it monopolistic positions and control over labor. Mercantilism, for example, is regarded as a system of "state-regulated exploitation through trade. . . ." "State intervention tended to grow in countries of Western Europe in the fourteenth and early fifteenth century, which was a period of almost labor scarcity, and again in the seventeenth century, which was in France, for example, the age of Sully, Laffemas, and Colbert; whereas the nineteenth century, a period of abundant labor reserve and rapid increase in population, witnessed the greatest triumphs of *laissez faire*." By the twentieth century, capitalism had reached a point where there was a "chronic fear of increase of products and productive capacity," "an arresting of technical development," and a threat of a collapse of the entire capitalist system.

Dobb has a neatly organized account, but he has imposed great limitations on it through his emphasis upon the labor theory of value. Surplus value undoubtedly arises from various factors of production and not from labor alone, at least, the historical record indicates that this is so. Hence capitalism as an institution has many facets which Dobb has largely ignored. Furthermore, he gives away a part of his case regarding labor theory of value as the distinct aspect of capitalism by stating that under feudalism, that is, before capitalism, the wealth of the lords resulted from surplus labor of serfs. Finally, what freshness and light there may be in the book are obscured by a wordy and turgid text.

SHEPHARD B. CLOUGH

Columbia University

Russia in Flux. By SIR JOHN MAYNARD. Edited and abridged by S. Haden Guest. (New York: Macmillan. 1948. Pp. xviii, 564. $6.50.)

The late Sir John Maynard wrote about Russia with an unusual perspective gained from a long career in another backward country, India, and with an authority derived from several visits (including one as early as 1895-96), as well as from independent study. This volume combines in abridged form two collections of essays previously published in England: *Russia in Flux before October* (London, 1941), and *The Russian Peasant: and Other Studies* (London, 1942). Running over virtually the whole range of Russian and Soviet life and history, the essays inevitably are rather uneven in quality. Unquestionably, however, some are first-rate contributions and the viewpoints expressed are interesting throughout. No student of Russia will wish to pass this work by.

Among the different essays, numbering twenty-seven in all, four discuss the currents of political, social and religious thought in Russia in the three-quarters of a century before the Revolution. These are probably among the most valuable in the volume. Maynard apparently did a prodigious amount of reading in Russian sources, and he manages to present in a brief space what seems to be a most comprehensive catalogue of the main intellectual figures and their thought, including, to mention only a few, the slavophile Khomiakov, the westernizer Chernyshevsky, Bakunin, the populist Mihkhailovsky, Tolstoy, Plekhanov, Struve and, of course, Lenin. The discussion is monographic in character and does not seem to focus on any particular thesis.

All of six essays deal with agriculture, including particularly Tsarist peasant living conditions, the organization of the Mir (which it is not generally realized was still, on the eve of collectivization, the dominant factor in Russian agricultural organization); the twists and turns in Soviet agricultural policy since the Revolution; the collectivization drive and the organization of the collective farm. These materials will be of interest both for the information assembled, though little seems distinctly new, and the interpretative comments, which are always challenging. While Maynard may tend to understate the initial peasant opposition to collectivization (p. 267), and at the same time overstate the mass support that has since been won for the new form of agricultural organization (Chap. XX), he is probably right in pointing to the war experience as indicating rank-and-file peasant loyalty

to the regime. In the light of the unrest during the collectivization drive many foreign observers were led to believe that the Soviet government might not be able to count on the peasantry in a national emergency. On the basis of his own travels in the Ukraine and North Caucasus in 1932-33, Maynard questions that there was anything like the severe famine there, leading to millions of deaths, such as many commentators reported at the time (pp. 249-50).

The materials on the evolution of Soviet agricultural policy should be read in conjunction with an all too brief essay on the controversies within the party in the 'twenties. Agricultural policy was one of the principal issues in these debates, and Maynard presents a very summary survey of the views held by different groups in the party on this and other questions, including industrialization, the status of the trade unions, foreign policy and so on. As Maynard suggests, the ideological differences between Trotsky and Stalin probably were not nearly as clear-cut as is often imagined. Certainly on economic questions, particularly agricultural organization and industrialization, Stalin at the close of the debates was at least as far to the left as Trotsky ever had been.

Unfortunately for the readers of this journal, the brief discussion of Soviet planning is altogether superficial, and will be of little interest to those familiar with any of the standard works on Soviet economics. It should be noted that, contrary to what is said (p. 341), the Soviet government was definitely interested in financing the first and subsequent five-year plans partly from foreign borrowing. Also, in view of the Labor Reserve School Act of October, 1940, to which reference is made, and certain other labor control measures instituted in the same year which are not discussed (see the reviewer's *Structure of Soviet Wages*, Cambridge, 1944, Appendix F), many probably will not share Maynard's opinion that "At all events the USSR is free from unemployment, and the choice of occupations is freer than in a country where young people must take the first job that offers, or else risk finding none" (p. 336). Except for a brief comment, no attempt is made by the author to grapple with the question of penal labor.

The balance of the essays, which space forbids us to comment on in any detail, includes several studies of a general historical character centering mainly on the three revolutions and the civil war; some studies on Soviet political institutions, which seem controversial at numerous points, particularly the purges; several essays on nationalities and religion; a summary appraisal of the living and working conditions of urban labor; a summary appraisal of recent currents in Soviet ideology, including the rôle of patriotism, attitudes toward the family, etc.; and a final and very provocative essay attempting to evaluate the Soviet system in terms of the opportunities provided for personality development.

At various points in his essays Maynard voices several familiar themes: the mass of Russians are little affected by or concerned with the vagaries of the police system, are mainly interested in security and economic and social leveling, and are probably not yet ripe for political freedom. These are, of course, all matters of opinion. Interestingly, the even more backward country

where Maynard spent his career seems now to be building its political system on quite different premises.

Unfortunately, these essays are much too loose-knit and their coverage too uneven to constitute anything like a systematic survey, suitable for textbook use. For specialists, their value is impaired by the lack of documentation. The general reader, however, will find this an unusually thoughtful and provocative book.

ABRAM BERGSON

Columbia University

Money, Banking and Credit in Mediaeval Bruges. By RAYMOND DE ROOVER. (Cambridge: The Mediaeval Academy of America. 1948. Pp. xvii, 420. $8.75.)

Drawing upon a long list of monographs and published documents and interspersing fresh data from Belgian and Italian archives, Professor de Roover has produced a noteworthy synthesis of financial history in an area where capitalistic institutions were relatively mature in the fourteenth century. Some important generalizations hold for the rest of Flanders as well as for Bruges; and, since many of the city's bankers were Italians, the study also bears on Italian history and parallels in part the author's *The Medici Bank.*

Following the Belgian historian Bigwood, de Roover finds that banking embraced three distinct groups: (1) the merchant-bankers, principally Italians, who specialized in foreign exchange; (2) the lombards, whose chief business was pawnbroking; and (3) the money-changers, mainly Flemish, whose operations evolved from "petty exchange" into deposit banking. Before the end of the mediaeval period Antwerp "inherited the position of Bruges as the financial metropolis of northwestern Europe," but by the turn of the seventeenth century Amsterdam outranked Antwerp. Definite links are established between mediaeval practices and banking in Amsterdam: the public bank of Amsterdam, founded in 1609, "performed the same functions as the Bruges money-changers and should be considered as their direct descendant."

The three classes of bankers did not form "hermetically sealed" groups, but it is significant that specialization was favored both by the business community and by legislation. (Thus, the money-changers were not allowed, and apparently did not want, to compete with the lombards.) Though realty doubtless formed the main type of wealth, no special market or institution catered to real-estate financing. Indeed, this aspect of credit is dismissed in a sentence: "Real estate owners could obtain credit more cheaply from institutions and private investors, interested in a steady flow of income, than from professional lenders." Public finance is similarly limited to casual statements: "Loans to public authorities . . . occasionally found favor with the lombards"; while the money-changers advanced funds to the city government "only in great emergencies." Lacking portfolios of mortgages and government securities, the money-changers made direct investments in commerce, particularly in the cloth trade; but even this was forbidden in 1477.

Money, Banking and Credit examines elaborately the problems of currency and short-term credit instruments and institutions; it answers few questions concerning long-term debt, either public or private, and the processes of capital accumulation.

In the fourth and fifth chapters de Roover reviews and expands his previous expositions of the mechanism of mediaeval exchange. Despite meticulous efforts to dispel false ideas of the subject, the discussion retains several puzzling statements. All important money markets were interrelated and arbitrage was practiced; monetary debasement as well as interest rates affected exchange rates; yet the "equilibrium of the money market required that the rate of exchange be always higher in that one of the two places which gave its currency to the other. . . . This rule is of general validity, and there are no exceptions" (p. 62). Is this an obscure way of saying that in a given market there was always a spread between the buying rate and the selling rate of a foreign currency? One hesitates to challenge an author who is sure that "on all these points [relative to foreign exchange] the demonstration given in this study is complete and decisive" (p. 353).

There are other points on which scholarly caution yields to undue speculation and assertiveness. A re-examination of the "widely current theory" that debasement "is explained by the dwindling supply of precious metals in Western Europe" leads to the conclusion that "temporary difficulties" (*e.g.*, adverse payments balances, work stoppage at the mints) were more important than any long-run factors tending to depress the price level. Although the evidence concerning the effects of monetary policy on the price level is "admittedly scarce," the author does not hesitate to affirm that Flemish prices "rose sharply during the fourteenth century and more slowly during the latter part of the fifteenth century." Subsequently, it appears that "for the fourteenth century there are no price series or index numbers available, but other documents give a fairly good idea of what was going on." On the other hand, "it would be dangerous to make any generalizations" in the absence of price statistics; but "their importance should not be overrated."

In conclusion, the author admits his inability to answer one important question: Were there business cycles in the Middle Ages? But seasonal fluctuations in the money market were commonly recognized by the bankers of Bruges; and, "if there are seasonal fluctuations, the existence of larger waves, that is, of cyclical fluctuations may be presumed and cannot be rejected *a priori*."

Robert S. Smith

Duke University

Trois Essais sur Histoire et Culture. By Charles Morazé. (Paris: Librarie Armand Colin. 1948. Pp. 62. 90 fr.)

These three essays, by M. Morazé, lecturer in economic history at the Institut des Hautes Etudes of the Sorbonne and one of the editors of *Annales*, are of importance for their emphasis on a return of man to a position of central significance in historical and economic study. In a brief foreword, the veteran Lucien Febvre compliments Morazé because, though in no sense

a pupil of his, the younger man has strengthened his hand in his lifetime plea for a geohistory, a history not stultified by the worship of mere *fact.*

Entitled respectively "From Facts to Man," "From Number to Man," and "Order and Method," these essays study the subordination of fact to space and time in human history, the inevitable intervention of man into his own statistical determinism, and the need for a restoration of philosophy in the history of culture.

Taking a single *fact*—the appearance of Jules Ferry at the head of the French government—Morazé demonstrates how far a fact is from being an absolute, and how it is linked with apparently remote elements in geography, time, and cultural history. History thus becomes psychological, "the life of Man."

In his discussion of number, Morazé traces the rise of statistical determinism in the 19th century, and then the inconsistent effort of man to level off the curves of his own dialectic of inevitable numbers. Thus in "Order and Method," Morazé arrives at a challenge to the effort to find a universal history of humankind on a parallel with the natural sciences; and he calls for a reversal of the present hierarchy of specialists toward that "infinitely more difficult and rarer" acquisition of "broad intelligence and encyclopedic reading" which alone can restore perspective in the history of man and man's culture.

WILSON O. CLOUGH

University of Wyoming

Economic Systems; Planning and Reform; Cooperation

The American Economy. By SUMNER H. SLICHTER. (New York: Alfred A. Knopf. 1948. Pp. vii, 214, ix. $2.75.)

This book is an analysis of the American economy—its problems and prospects—as seen by a celebrated economist. Professor Slichter first sets out to examine the basic characteristics of the economy. He next explores four of the principal problems of the economy, and finally gives an appraisal of its strong points and weaknesses. By way of introduction he states that the American economy is the most productive in the world (with six per cent of the world's population and an even smaller percentage of the world's labor force, the United States produces over one-third of the world's goods). He believes that the great strength of this extraordinary economy is little appreciated by the people of the United States, and even less so by the people of other countries. The economy has great problems, and its institutions are under attack.

Professor Slichter writes:

> The economy itself is undergoing a basic transformation. About fifteen years ago power began to shift rapidly from business men and the self-employed to employees, who are by far the most numerous group in the community. This shift of power is still in its early stages, but is going on rapidly. The prospects of the economy are much in dispute. Many people

believe that it has become "mature" and that it is rapidly losing the capacity to grow. Other people think that the shift of power from employer to employees will undermine the spirit of enterprise and hinder the growth of industry—that no laboristic economy can be as progressive as a capitalistic one. Still other persons are impressed with the fact that industrial research is growing by leaps and bounds, and that the industrial revolution appears still to be in the early stages of its development. They count on rapid technological change to keep the economy dynamic.

Once these issues are set forth as the subject matter of the book, Professor Slichter outlines what he believes to be five principal characteristics of the American economy: (1) The economy is predominantly one of private enterprise; (2) it is a laboristic economy; (3) it is highly competitive; (4) it is highly dynamic; (5) the economy is highly self-sufficient.

While each of these propositions is qualified and documented, one cannot let them all pass by without some challenge. Certainly one cannot accuse Professor Slichter of being a conformist; he has persistently stuck by his guns in defending his wartime position that the vast blacklog of savings and deferred demands would maintain full employment during the postwar years, while many economists predicted millions of unemployed. Similarly, he is in the minority here regarding his position on competition. Most economists would probably agree that the economy has too little of the competition necessary to provide the most effective balance wheel for allocating resources into the most productive channels. While emphasizing that the American economy is highly competitive, Professor Slichter tends to give inadequate recognition to the significance of the rapid growth of corporate concentration of industry under investigation by the Antitrust Division of the Justice Department and the Federal Trade Commission. Relevant also to the monopoly question are the recent activities and revelations of the Senate Small Business Committee.

It is not difficult to accept, for the most part at least, his thesis about the economy, which he implies can be expected to become more "laboristic" over the long run. But this is also to be interpreted as meaning that strong *farmeristic* elements will be important, and merits consideration in evaluating any thesis that the economy is largely "laboristic" in nature.

Professor Slichter lists four problems which he believes stand out above all others in importance; some of these he believes are more political than economic. They are: (1) The problem of industrial relations; (2) The problem of economic stability; (3) The problem of international economic policies of the United States; (4) The problem of incentive to expand industrial capacity to increase production.

He emphasizes that the interest which the community takes in labor matters will largely determine whether management and trade unions cooperate effectively to increase output and to determine working conditions, and that it will determine in larger degree the nature of the impact of trade unionism upon the scale of values of the country. Thus, it becomes imperative that there be developed a generally accepted body of principles as a guide to settlements which are equitable and in the general welfare. Professor Slichter

believes that these principles must either be accepted by both parties or enforced by a national wage and arbitration policy. Several instruments for dealing with emergencies should be possessed by the government. He is against governmental seizure of plants. He thinks voluntary arbitration would be preferable when bargaining disintegrates. If this fails, he favors required arbitration. If one party or both reject the recommendations of an impartial emergency arbitration board chosen as neutral and competent by representatives of labor, the President (or the governor) might require both parties to try out the board's recommendations for six months or more. This prolonged "cooling off" period introduces an uncertainty which each party would wish to avoid.

While Professor Slichter's discussion of industrial relations is cogent and encompasses much admirable analysis, his section on the business cycle suffers from over-concentration. By way of stressing the role of savings and investment, he gives much attention to the need for tax revisions that would encourage more risk taking. Two steps should be taken to correct the present income-tax inequities. One is to permit income-tax receivers to pay a tax on their average income over a limited period of years; and, second, ". . . permit a substantial part of capital losses to be offset against general income in the year that capital losses are realized."

In his excellent chapter on international economic policy, he explains the job of ECA, the chronic shortage of dollar exchange, and the great need of the United States to import more goods.

After examining the pertinent facts Professor Slichter tries to dispel the belief that this is a "mature economy," and concludes that there are powerful forces still making it possible to have great technical progress. He lays the responsibility for this progress squarely upon the so-called "new laboristic society" that he believes is emerging. Its great challenge is to open ". . . the markets of the United States to the rest of the world and in developing far closer economic ties between this country and other countries." If this is done ". . . . the standard of living should continue to double every forty years or less."

While presenting a vigorous and provocative approach to the subject, this book is at the same time a thoroughly scholarly piece of work. It deserves to be widely read and digested, particularly by all those persons interested in maintaining our American institutions.

CHARLES D. HYSON

Harvard University

Individualism and Economic Order. By FRIEDRICH A. HAYEK. (Chicago: Univ. of Chicago Press. 1948. Pp. vii, 272. $5.00.)

The degree of civilization that mankind has yet attained, and any conceivable progress therein, has been, and will be, attained by planning. Progress in civilization has also been marked by, and is practically synonymous with, the release and development of the constructive powers of individuals and the suppression of their predatory tendencies. The task of social planning is to enable men to take joint constructive action that they cannot take as

individuals or private groups, to contract for their mutual benefit on the basis of mutual renunciation of antisocial practices, to suppress the socially vicious activities of those who will not make any such renunciation, and, for the rest, to give rein to the full and free expression of individual personality and talent in sole or collective endeavor.

Nothing, therefore, could be sillier than an attempt at serious contrast between planning and no-planning, in either the individual or social sphere, unless one is prepared to argue for improvidence, chaos, and the war of each against all, as the *summum bonum* of the human race. This is not the real choice that confronts us but rather where, what, and how much centralized planning there shall be, and how much individual responsibility. Our preference must be between the jungle and the jail, and most of us, I conceive, would like things to be about as far away from either of these extremes as from the other (unless, of course, we picture ourselves as the wardens of an incarcerated community industriously engaged in ministering to our whims). In the jungle there is, of course, no central planning while, for the inmates of a well-run jail, all individual planning, especially for escape, is either futile or damnifying to the central plan.

In *Individualism and Economic Order* Professor Hayek attacks, rather than as in his *Road to Serfdom* he seemed to me to skirt, the *essential* question. The book is a collection of previously published essays which, in some degree, attains the happy result of Simons' *Economic Policy for a Free Society* of being greatly more impressive as a whole than as a mere sum of the parts. The last two essays, however, on "The Ricardo Effect" and "The Economic Conditions of Interstate Federalism," appear to be a vermiform appendix with no function, *in this book,* other than to bring it to a size to which the publishers might attach a price tag of five dollars and still avoid the blush that must otherwise effuse even the hardened faces of their kind.

The first six essays "Individualism: True and False"; "Economics and Knowledge"; "The Facts of the Social Sciences"; "The Use of Knowledge in Society"; "The Meaning of Competition"; and "'Free' Enterprise and Competitive Order" are brilliant expositions of the general themes that, under an automatic system (that is, one that relies on the drives of individuals seeking their own ends), we build far better than we know, and that any sort of detailed central planning must, along with its lack of mobility and adjustment to kinetic conditions, inevitably lose the benefits of the immense store of dispersed special experience and information of which the social "know-how" is composed.

The three essays on Socialist Calculation (Nos. VII, VIII, and IX) conclusively argue that, in a collectivist regime, there is no possibility of optimum allocation of resources on the basis of consumers' preference, and, to this reviewer at any rate, carry the conviction that there is a negligible probability that this can be done anyway near as well as in even a far from perfect system of free enterprise. It is not so clear, however, that specific (narrow) ends may not be reasonably well attained in a collectivist system, provided free choice to the individual is a matter of little, if any, concern to the directorate. Though this was not the point at issue, one may expect from

Hayek's opponents the charge that he is comparing not ideals with ideals, or facts with facts, but the ideal theoretically obtainable through free individual enterprise with an ideal which some collectivists do not hold or with the disconcerting facts quite obvious, contumaciously denied, or shamefacedly concealed, in existing collectivistic societies.

The essential defects in such approximations to free enterprise as the world has yet seen lie in the lack of provision of a rational monetary system for a pecuniarily motivated "order" and in the consequent waves of involuntary unemployment with which all of them have heretofore been afflicted. The inclusion, as No. IX, of the essay on "A Commodity Reserve Currency" is Hayek's recognition of these defects and his prescription for their alleviation. Hayek's strong endorsement of this monetary reform should suffice to remove all suspicion of him as a reactionary (which he has, of course, never deserved) and to separate him from those who seem to believe that nothing new can be good as sharply as from those who are unaware that, if history throws a most uncertain light on what is good, it can at least suggest that what men in the past have always rejected (when, after long experience, they have had the chance) is a highly unpromising path for the present and the future.

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Business Fluctuations; Prices

Measuring Business Cycles. By ARTHUR F. BURNS and WESLEY C. MITCHELL. (New York: Nat. Bureau of Econ. Research. 1946. Pp. xxvii, 560. Tables, 201. Charts, 77. $5.00.)

This is the second volume in the series entitled "Studies in Business Cycles."[1] Impressive in scope and executed with painstaking care, the work presents a detailed, technical analysis of a method for studying the cyclical behavior of individual series. To those who place their credence in aggregative data or in composite indices of economic activity, the approach undertaken by Burns and Mitchell may appear complicated and time-consuming. But since our usual aggregative data have not, to date, adequately served either to support or to refute numerous hypotheses of economic theory, an atomistic analysis of business activities is likewise essential. As a preliminary to forthcoming monographs and to a third summary volume, the present work discusses numerous statistical tools and subjects several important causation hypotheses to valuable tests of significance.

From a detailed analysis of 1277 individual series in the United States, Great Britain, Germany, and France[2] and a partial analysis of many more,

[1] The first was *Business Cycles: The Problem and Its Setting*, by Wesley C. Mitchell, which the National Bureau of Economic Research published in 1927. Mitchell's earlier work, the pioneer and monumental quarto volume, *Business Cycles*, was published by the University of California, in 1913.

[2] Of this total, 76 per cent relate to the United States, 11 per cent to Great Britain, 7 per cent to Germany, and 6 per cent to France; the series cover production, transportation, employment, prices, inventories, sales, and monetary circulation.

the authors arrive at the following definition: ". . . a business cycle consists of expansions occurring at about the same time in many economic activities, followed by similarly general recessions, contractions, and revivals which merge into the expansion phase of the next cycle; this sequence of changes is recurrent but not periodic; in duration business cycles vary from more than one year to ten or twelve years; they are not divisible into shorter cycles of similar character with amplitudes approximating their own" (p. 3).

To determine the chronology of turning points in general business activity, the authors date the alternate peaks and troughs of seasonally adjusted, specific cycles occurring in each of the individual series included in the study, following the pattern of the definition just given. The series are chiefly monthly, to insure greater exactness in selecting the true turning points within years. From the consensus of turning points in these "specific cycles," the monthly dates of the "business cycle" are designated, not without qualms, but with a belief that this chronology, though approximate, is more trustworthy than any other devised to date. The turning points so selected generally harmonize with the annals of business and with the best known composite indices of business conditions in the United States.

Following the determination of business cycle durations, useful as a norm for comparison, Burns and Mitchell then introduce the statistical methods to be used by the National Bureau in the future analyses of individual series. The first set of methods involves five S (specific cycle) tables, usually based on a positive, trough to trough,[3] analysis of each complete cycle within a single series.

These enumerate:

S(1) the duration in months of specific cycles during expansion, contraction, and the full cycle: and the timing difference, in months, between specific cycle turning points and corresponding business cycle turning points, *i.e.*, the enumeration of leads or lags.

S(2) the specific cycles expressed as relatives: the absolute value for each full positive cycle is divided by the average of the absolute values for the corresponding full cycle; thus the inter-cycle secular trend is removed but not the intra-cycle trend. The index for each turning point represents a three month average[4] centered on the month containing the turning point, thereby partially eliminating the random fluctuations. Amplitudes are then derived for the expansion phase (positive difference), for the contraction phase (negative difference), and for the full trough to trough cycle (difference ignoring signs). Also computed for the two major phases (and for the full cycle) is the average change in the index relatives per month, obtained by dividing the amplitudes by the duration of the phase in months.

S(3) the secular movements as given by the average monthly standings in absolute units during expansion, contraction, and the full cycle, together with percentage changes from phase to phase.

[3] Series definitely established as inverted are treated on a peak to peak basis. Also many non-inverted series are treated on the peak to peak basis to offer more complete comparison.

[4] Sometimes less, depending on the duration of the complete cycle.

S(4) the specific cycle pattern, which is indicative of amplitude and which is an expansion of table S(2), showing the cyclical relatives of the full cycle in 9 distinct stages. Stages I, V and IX represent the beginning trough, the intermediate peak, and the terminal trough, respectively; stages II, III, and IV represent the index relatives for each third of the intervening expansion phase; and stages VI, VII, VIII represent the index relatives for each third of the intervening contraction phase.

S(5) the specific cycle pattern expressed as the average change per month between the 9 stages indicated in table S-4.

The second set of methods leads to the construction of three R (reference cycle) tables, representing the same individual series, but the relatives are now classified in accordance with the previously established turning points of the general business cycle.

These enumerate:

R(1) the reference cycle pattern indicative of amplitudes in the 9 stage set-up of table S-4. This permits direct comparison of the specific cycle pattern of table S-4 with the reference cycle pattern of table R-1.

R(2) the reference cycle pattern expressed as the average change per month between the 9 stages indicated in table R-1. It is interesting to note that the average monthly change during reference contractions may frequently be positive because of a continuing positive slope after the reference peak, although such positive increments here become smaller.

R(3) a general index of specific cycle conformity with reference cycles. The signs of amplitude differences during reference cycle expansions, contractions and the full cycle are examined. A similar investigation of signs is applied to the average change per month analysis.

As a summarizing measure, each of the S and R tables contains column averages representing the duration, timing, amplitude, and pattern of the cycles of individual series. Average deviations, between cycles, are presented for these factors. From the summaries of table S-4 and R-1, basic graphs are prepared for ease in interpretation (see chart 21). These graphs, which first struck the present reviewers as too complicated for ready comprehension, are really masterpieces of inclusiveness. From them the reader is able to obtain information regarding the average duration and its variability, the average amplitude and its variability, the average timing and a direct comparison between the slopes of the average specific and the average reference cycles.

In the examination of the many series included in the study, it was concluded that reference cycles of the same series bear a family resemblance to the average pattern (see charts 73 and 74). Likewise, the patterns of reference cycles for separate series were seen to differ characteristically. Averages of cyclical timing, amplitudes, and the average change per month, when subjected to tests of significance, were found to be significantly different among series. However, the authors observe "... that although cyclical measures of individual series usually vary greatly from one cycle to the next, there is a pronounced tendency toward repetition in the relations among the movements

of different activities in successive business cycles" (pp. 488, 491). It was also found that the variance ratios of full cycle durations were not large enough to be considered significant.

Arguments leading to the choice of the various statistical tools and methods (monthly data in preference to annual or quarterly data, seasonal adjustments, inter-cycle trend removal rather than a combined inter-intra-cycle trend removal, three-month averages at turning points rather than formal smoothing) are clearly enumerated in Chapters 6 through 8. The customary method of trend fitting and removal is abandoned because it tends to alter dates of the turning points, because it introduces greater uniformity in cyclical gyrations than is warranted, and because trend fitting is at best a rough approximation of true growth. It was observed that the elimination of random fluctuations by the application of "smoothing" formulas tends to change the dates of turning points (sometimes by as much as 6 to 10 months), tends to stretch out the durations and to dampen the amplitudes of brief cyclical phases, assumes an unwarranted inflexibility in the shape of cyclical rhythms since the formulas used are quite rigid, and does not eliminate random movements that extend over years.

In establishing the validity of averages as a basis of comparison, the authors were compelled to investigate the hypothetical influences of secular, discontinuous, and long-wave movements on general business cycles. For if these influences were predominant, the perusal of the average pattern of specific and reference cycles would yield trivial results. Using either the coefficient of determination (coefficient of correlation squared) or simple variance analysis by establishing significant groups, and sometimes both, the authors offer proof, though they grant it not conclusive,[5] that the above mentioned factors do not alter the course of business cycles with any degree of significance.

Following is a highly condensed outline of some of the hypotheses tested and the implications deduced:

1. a. Hypothesis—that secular change tends to expand cyclical durations and amplitudes whereas secular decline tends to dampen them.

b. Deduction—with the exception of the amplitudes of call money rates, the influence of secular tendencies cannot here be considered significant.

2. a. Hypothesis[6]—that as industrial development progresses and a stage of "economic stability" is reached, business cycle durations tend to increase.

b. Deduction—although the hypothesis may be substantiated by us-

[5] The authors point out the roughness of the use of simple variance analysis as a test of significance. Such a test assumes independence of the component elements which in fact is not true for cyclical components. Also, the series are in many cases too short in duration to permit any definite conclusion.

[6] By F. C. Mills, "An Hypothesis Concerning the Duration of Business Cycles," *Journal of the American Statistical Association*, December, 1926.

ing dates of turning points derived from Thorp's *Business Annals*, the addition of more recent fluctuations and the use of turning point dates derived from the present study fail to support the hypothesis.

3. a. Hypothesis—that the business cycles after 1914 indicate a definite structural change.

b. Deduction—that although there is an apparent tendency toward intensified cyclical fluctuations after that date, the apparition is not clear.

4. a. Hypothesis—that long waves of from 50 to 60 years in wholesale prices[7] influence the duration and amplitude of specific cycles.

b. Deduction—that although there is better evidence that an association exists between price trends and specific cycles in terms of cyclical duration[8] than in terms of cyclical amplitude, the sample series indicate that the relations among the cyclical patterns are broadly similar during the periods of expansion and contraction in wholesale prices. Also, the authors find it difficult to state with any degree of certainty that wholesale prices have distinct long-period turning points, offering as evidence the several portions of the curves which are actually quite flat for extended periods of time.

5. a. Hypothesis—that within major cyclical movements of from 9 to 10 years (Juglar cycles) there appear three minor cycles with an approximate duration of 40 months (Kitchin cycles).[9]

b. Deduction—that no arrangement of the Burns-Mitchell specific cycles in groups of three consecutive cycles produces an approximation to the Juglar cycles of 9 or 10 years duration.

An interesting general finding concerning the nature and dating of cyclical downturns is presented, not in the chapters on hypotheses, but in an earlier passage: ". . . when the turns in leading activities are comparatively 'flat,' crisscrossed by erratic movements and dispersed over many months, the turn in general business activity becomes elusive. The American business-cycle peak of 1937 approximates this type. . . . It may be noted parenthetically that this evidence [wide dispersion in the peaks of numerous series], so far as it goes, gives no support to J. M. Keynes' thesis that *"the substitution of a downward for an upward tendency often takes place suddenly and violently, whereas there is, as a rule no such sharp turning-point when an upward is substituted for a downward tendency.'"*[10] Here is ample evidence, if it be needed, that many of Keynes' original and undeniably brilliant contributions to economics require not blind acceptance as part of a system but critical empirical examination, verification, refutation, and re-synthesis.

Enough has been said to suggest the elaborate and careful nature of this

[7] Long waves as originally derived by N. D. Kondratieff.

[8] This was especially true during the contraction phase where variance analysis ratios proved significantly large.

[9] Hypothesis as formulated by J. A. Schumpeter in his three schema postulate.

[10] Page 83 and 83 n. The Keynes quotation is from his *General Theory*, p. 314. Italics supplied.

major contribution to the literature of cycle measurement and appraisal.[11] *Measuring Business Cycles* represents not only a synopsis of new statistical techniques applied to a very large number of cyclical questions, but also portrays in great detail the problems involved in applying many older techniques to individual series. As a systematic statistical analysis that may eventually lead to generalized explanations, the approach taken by Burns and Mitchell is by far the most significant effort made to date. Although the undertaking is tremendous in its scope, the development of the detailed picture of what happens during "typical" business cycles may prove tremendously fruitful.

No one can read this book without admiration for the care and scientific zeal of the authors. It exemplifies Wesley Mitchell's predominant intellectual passion throughout his whole life: the constant testing and searching to verify or to refute hypotheses and theories. It is good to know that the enormous loss to economics occasioned by Dr. Mitchell's death is at least mitigated in the field of cyclical research by the fact that the basic analytical techniques, established in this volume, will be further applied by Dr. Burns and the staff of the National Bureau in their continued efforts to produce "a systematic account of how business cycles run their course."

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[11] Minor criticism might suggest that the use of the phrase "rate of change," to designate an average absolute monthly spread between relatives, may not be the happiest use of terms; for such a measure represents an average monthly difference between two indexes but not the percentage rate by which anything grows or diminishes. But in other sciences, "rates" sometimes are expressed in absolute rather than proportionate terms (*e.g.*, velocity as, say, miles per unit of time) so the authors may be justified, and the reviewers merely picayune, on this point.

The Keys to Prosperity. By Willford I. King. (New York: Constitution and Free Enterprise Foundation. 1948. Pp. xvii, 242. $4.00.)

Intended as a restatement of "the basic essentials underlying national prosperity," this volume provides a sad commentary on what the proponents of the extreme right are willing to accept as "sound economics." Some of Dr. King's seventeen "keys to prosperity" would be accepted by nearly everyone wishing to retain a largely free-enterprise economy, although the full statement in certain cases reveals more than first meets the eye.[1] A few of the "keys," however, will make even ardent conservatives gasp. One is "Forcing of the thriftless to insure themselves and their families against the untoward vicissitudes of life," which is elaborated in the body of the book to mean no form of government-supported social security whatsoever and the substitution therefor of compulsory disability insurance, to be provided by private companies and paid for entirely by payroll deductions (p. 87). Dr. King believes that, "in large part," cases of individual need are due to "thriftlessness" (p. 86). Another key is "Avoidance of governmental deficits, in bad years as well as in good years." Another is "Withdrawal of government from the

[1] The seventeen keys are listed on page 233 of the book.

ownership, administration, or control of the operations of construction projects, farms, factories, banks, insurance funds, and transportation facilities." And, of course, there is the proposal that "the thrifty" be protected "from confiscation of their savings by taxation and otherwise." The reader is not told precisely what degree of progressiveness in tax rates represents "confiscation."

There are sections of this book which are reasonably satisfactory as an elementary exposition. But the scientific merit of the book as a whole is not unfairly illustrated by such passages as the following:

After 1929 in the United States, "Social security and unemployment insurance payments were used as bribes to keep people from working" (p. 23).

"Monopolies not sponsored by government, but yet able through monopolistic power to raise prices sufficiently to oppress the public, are and have been extremely rare and short-lived. . . . The more one looks into the matter, the more convincing becomes the evidence that in the United States, at least, all oppressive monopolies are protégés of government" (p. 27).

Since real "saving" was less in the 'thirties than the 'twenties, "the belief that 'over-saving' is a characteristic of depression would seem to lack any foundation in fact" (p. 45).

"The fact which [the Keynesians] overlook is that public spending to relieve distress nearly always perpetuates and accentuates that distress. In countries not rich enough to afford any considerable volume of charity, depressions are short-lived, for hunger soon compels able-bodied persons to accept jobs at the best wages obtainable. When the idle go back to work, production increases, and the depression inevitably fades away. In prosperous nations, by contrast, doles may keep millions idle for years, and their idleness brings about general depression, lessens the national output, and keeps the nation poor" (p. 81).

"When spending equals income, there obviously is no hoarding" (p. 131). But spending is defined to include not merely consumption but also "amounts spent for savings bonds, for life insurance, for savings-bank deposits, for building and loan shares, and for numerous other classes of investments" (p. 130).

"The facts thus far set forth make it abundantly clear that the prosperity of a nation is commonly bound up with that ultra-important ratio

$$\frac{\text{Net new spending power"}}{\text{Average hourly earnings}} \text{ (p. 193).}$$

["Net new spending power" is defined as national income plus change in the sum of currency and total demand deposits.]

As a corollary, "Depressions are, therefore, brought about by the inflexibility of wage rates—by their failure to drop when the net total of new spending power declines" (p. 191).

"What labor monopolies, collective bargaining, strikes, minimum wage laws, and unemployment insurance have really accomplished is to cut down production, throw millions out of work, reduce total payrolls billions of dollars in a single year, discourage thrift, and promote inflation, lawlessness, and riots" (p. 213).

Passages such as these make it difficult to take seriously any of King's

proposals, which, on the side of maintaining economic stability, boil down to combining price stabilization through monetary control with wage rates made as flexible as dividends.

One final point will explain why I have chosen to devote this much space to a book of such dubious merit. *The Keys to Prosperity* is published by "The Constitution and Free Enterprise Foundation" and distributed by its parent, the Committee for Constitutional Government. There is apparently under way a program aimed at the colleges "to promote the free enterprise system and the best available book on economics, *The Keys to Prosperity*."[2] I must also report—with mingled sadness and mystification—that a brochure advertising this book (a "classic for today's students of economics as, for its time, was *The Wealth of Nations*") quotes a dozen laudatory opinions by "economists and other experts," at least six of whom are university economists with some national reputation.

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[2] From a purchase order and contribution blank issued by the Constitution and Free Enterprise Foundation.

Business Finance; Investments and Security Markets; Insurance

Corporation Finance. By Hiram L. Jome. (New York: Henry Holt. 1948. Pp. x, 676. $4.00.)

Professor Jome has written a text for students whose only previous preparation has been a beginning course in economics. He has assumed, further, that most students using this book will not pursue further professional studies in the field. The book's scope, therefore, is considerably wider than that of most textbooks on corporation finance.

Part I on the Forms of Business Organization begins with a brief exposition of elementary accounting principles. These are based on the financial transactions of Bill Anthony, a "boy in your neighborhood," who subsequently goes into business with partners and eventually incorporates. This treatment lessens the danger that students will fail to see the connection of what they study with the everyday life they know.

The second part of the book is devoted to Corporate Problems. It includes chapters on corporate securities, capital structure, internal and external sources of financing and combinations. The treatment is not always reasonably balanced. The subject of working capital is discussed in about three pages, whereas three long chapters are devoted to combinations. For a nonprofessional student who is more likely to be concerned with small rather than large enterprise, working capital financing is surely a more important subject than corporate combinations.

Discussion of the legal phases of corporate finance, for the layman, should emphasize the need for conforming to the statutes and judicial precedents. Yet, discussing the legality of dividend payments, Professor Jome says that

paid-in surplus "should probably not be used as a basis for cash dividends," whereas the layman must be warned, first and foremost, that this is illegal in a number of states.

Part III of Professor Jome's book is headed Social Aspects of Corporation Finance, but actually includes a large amount of material ordinarily found in books on investment. There are chapters on the mathematics of investment, securities exchanges, the security laws, protective provisions in stock and bond contracts and investment trusts. Where the student is going to take a separate course in investments, as is often the case, a number of these chapters may be found inappropriate for the course in corporation finance.

There are well-chosen brief appendices that provide valuable readings for students.

The author has produced a readable, interesting text. Useful problems are placed at the end of the chapters. For nonprofessional students, especially those who are not going to take a separate course in investments and for whom considerable outside reading is not practicable, this book will be found among the most suitable available.

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Public Finance

Introduction to Fiscal Policy. By RICHARD W. LINDHOLM. (New York: Pittman. 1948. Pp. 248. $2.75.)

This book is intended to fill a pressing need felt by instructors in public finance for a more adequate treatment of modern views on fiscal policy than is obtainable in most textbooks. In the few instances where major emphasis has been placed on the relation of fiscal policy to income, employment, consumption, and the price level, there has been a tendency to slight important matters covered in textbooks patterned along more conventional lines. Yet, if both tasks are to be accomplished in the same volume, public finance texts might become extremely cumbersome. One possible solution of this problem is an auxiliary text like the present, of modest length, and not too expensive, for purchase along with the major text.

In his preface the author states that the book is to be read by the "average student of political science, education, sociology and history, as well as business and economics." Yet everything of importance for fiscal policy is "concisely and thoroughly treated." It may be asked at once whether either of these objectives has been, or indeed can be, achieved. Fiscal policy cannot really be understood without a grounding in monetary theory, and an understanding of business cycle theory must underlie any but a docile acceptance of fiscal policy dogma. It is also a question how far a treatment of fiscal policy running to 225 pages can be at the same time both thorough and concise. Thoroughness has indeed been achieved with respect to the range of topics considered, but at the cost, in some instances, of rather brief treatment. The book commences with an introductory discussion devoted to the

relation between the public and private economies, the development of the fiscal role of the government from World War I to the present time, and definitions of the terms commonly used in the field of fiscal policy. There follows a chapter on what modern fiscal policy includes, which forms the pattern for the remainder of the book. The *laissez-faire* and the interventionist attitudes toward public finance are contrasted, and types and goals of fiscal activity are discussed. Fiscal activity can affect not only the general level of prices, but relative prices as well, and thus the way in which resources are used. But it is also important to maintain the correct volume of consumption, to preserve the proper balance between savings and investment, and to avoid unemployment; and this in turn requires fiscal intervention to assure an economic distribution of income. These desiderata are then discussed in the main body of the volume, in relation to (1) revenues and (2) expenditures.

In the two major chapters, on revenues and expenditures, there are parallel sections on each of the following: desirable prices, a desirable consumption level, a desirable employment level and a desirable income distribution. Desirable prices are stable prices. The desirable consumption level is that which at the same time maximizes labor effectiveness and provides savings adequate to assure the introduction of efficient machines, as well as a demand adequate to assure that these savings will be invested. The desirable employment level is full employment. The desirable income distribution is that which minimizes the reduction of efficiency through inadequate income (p. 63). For the most part these desiderata are assumed, which is appropriate for those acquainted with the logic by which they are reached, but which is apt to leave that student at a loss who is untutored in such matters as the relative desirability of rising, constant, or falling prices; the role of the propensity to consume; the equality of savings and investment; the inflationary implications of full employment; and the economic effects of unequal distribution of income.

The chapter on the revenue system is introduced by a brief discussion of built-in revenue flexibility. While it is pointed out that this automatic corrective "can aid greatly" in bringing about stable prices, consumption, and employment and a desirable distribution of income, somewhat more space might have been devoted to disposing of the more exaggerated claims that have been implicitly made by those who rely on stable tax rates to smooth out moderate fluctuations in income. Some attention is given to shifting and incidence of taxation, whence the analysis proceeds to the relation of revenues to desirable prices. The difficulties of steering a course between inflation and deflation are pointed out, and the "adjustable tax plan" for achieving stable prices is discussed. This leads to a treatment of war and postwar inflation problems and how they were met, followed by a catalog of the ways in which revenue-raising activity affects consumption (taxes, commodity sales, government borrowing, effects *via* the interest rate and gold sales). The possibilities of achieving full employment by way of the tax system with a balanced budget are explored, followed by a discussion of the effects of taxes on investment and consumption, and the taxation of idle money. Appropriately, the author devotes a relatively large amount of space to the role of the

tax system (including state and local) in the redistribution of income. The author's argument (p. 129) that the carrying charges of the debt "are certain to bring about a greater concentration of income in the upper brackets" should be noted by those advocates of fiscal intervention who have minimized the importance of the economic effects of the public debt.

A discussion of the effects of expenditures on prices during different phases of the cycle is followed by details concerning the wartime experience, government operation of yardstick plants, purchase of gold, interest expenditure, and debt repayment. The use of government expenditures to achieve a desirable consumption level naturally receives a relatively large amount of space, but the framework of the book works against a really adequate treatment of the relation between fiscal policy and willingness to invest. Some interesting remarks are made with respect to pump-priming, however, the position being taken that this device is useless unless first "needed changes in the relationship of different economic factors have been made" (p. 170). The chapter concludes with a treatment of the possibilities of effecting redistribution of income through government spending; vertical redistribution of income, social security, education, interest payments, and agricultural expenditures.

A final chapter deals with problems of administration. The Employment Act of 1946 is summarized and discussed, followed by a treatment of the problems of debt management, government debt and inflation, and the effects of interest rate policy. The problems related to successful administration of taxes and expenditures are next handled, including those of creating an adequate reserve shelf of public works, contract-letting, timing and the like.

This book is a sincere effort to bring the problem of fiscal policy down to the level of the elementary student. If care is taken to supplement its materials with classroom discussion of the relevant underlying monetary and business cycle theory, it should fill a needed gap. The question may be raised, however, whether even in an "Introduction" it would not have been advantageous to include some discussion of the latter along with the treatment of fiscal policy proper.

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The Monetary Problem of France. By Pierre Dieterlen and Charles Rist. Published for the Carnegie Endowment for International Peace. (New York: King's Crown Press. 1948. Pp. xiii, 98. $2.50.)

This book by Mr. Pierre Dieterlen of the French National Economic Intelligence Center, in collaboration with Professor Charles Rist, is the second study of European monetary policies published by the Carnegie Endowment for International Peace. However, unlike Professor Leon H. Dupriez' account of the *Monetary Reconstruction in Belgium*, which dealt with the scope, technique, and results of the Belgian monetary reform,[1] the Dieterlen-Rist book is limited to describing France's problems of internal inflation and ex-

[1] For a review of Professor Dupriez' book by the present reviewer, see the *American Economic Review*, March, 1948, pp. 177-80.

ternal unbalance and then strongly advocating a solution along "classical" lines. The authors of the book, as Mr. Antonin Basch remarks in his foreword, urge such a solution "in plain and courageous language," not hesitating "to underscore the mistakes which were made and to emphasize what, according to their opinion, must be done to restore order and prosperity to the French economy."

Professor Rist, who wrote the preface and one chapter outlining the reversal in France's financial and economic policy in January, 1948, holds that France committed grave mistakes in the early postwar years. Military expenditures were increased after the liberation to a level that in no way corresponded to France's actual needs and was quite out of proportion to its resources; the government tolerated for several years a large budgetary deficit; and it embarked upon an extensive modernization and re-equipment program which was "on much too broad a scale considering the financial limitations of an impoverished country." These mistakes were further aggravated by the "obsession" with the theories of controlled economy and by the consequent attempts to achieve economic recovery "in an atmosphere of financial and monetary insecurity." To effect a "rational monetary policy oriented towards the return to a much greater freedom," Professor Rist recommends re-establishing domestic stability by balancing the government budget, renewing confidence in the nation's currency, and giving impetus to saving. Furthermore, since "reality is not concealed by throwing a smoke screen around it," domestic stability, according to Professor Rist, should be consolidated by creating open gold and exchange markets where the franc would be given a realistic value, thus restraining imports, stimulating exports, inducing the repatriation of French capital abroad, attracting private foreign investments to France, and last but not least, providing the necessary precondition to dishoarding private gold stocks (put at 3,000 metric tons or 3.4 billion dollars). With the help of the European Recovery Program, which enables France to import certain essential products without straining its foreign exchange market, Frenchmen could then face "fearlessly" the new freedom.

Some, though by no means all, of the ideas put forward by Professor Rist became official policy in January, 1948; yet, a new outburst of inflation occurred in the second half of 1948. In undertaking to explain why inflation is chronic in France, Mr. Dieterlen's masterly analysis, which constitutes the bulk of the book, so guides us through the labyrinth of France's currency and public finance that even the events subsequent to the completion of the manuscript (early 1948) appear in sharper perspective. That Mr. Dieterlen's survey does not appear outdated is due to the fact that the author traces the postwar developments back to the 'thirties while simultaneously concentrating upon the broad lines of the narrative rather than embroidering it with incidental details. As a result, the mosaic of French contemporary currency and public finance that he sets forth appears highly instructive and very interesting.

Mr. Dieterlen's analysis brings home to the reader the complexity of France's monetary problem. First of all, as the author rightly points out, French monetary and fiscal policy is "incomprehensible" without bearing in

mind French politics—the "liberation psychosis," the swing to the left in the political assemblies, the disrespect of law ("a penchant quite in conformity with French temperament"), etc. The "anarchic attitude" that is a sequel of wartime demoralization was further aggravated by the inability of the French government to organize effective rationing that would assure the vital minimum to all its citizens. Under this "endemic disorder" any attempt at disinflating was exceedingly difficult.

Furthermore, the French government coalitions between the Socialist and Center parties brought about constant vacillation between economic controls and a liberal economic policy. Inconsistent compromises had to be made between those who favored controls and those who rejected them in principle while tolerating them for reasons of expediency. Yet, in Mr. Dieterlen's words, the "French economy remains a capitalist economy; to maintain a certain number of excessive compulsions, and particularly monetary compulsions, is inefficient as well as detrimental to its mechanism. It is therefore necessary either to radically transform the economic system of the country (with all the political consequences that such a transformation implies) or to readjust the monetary policy to the pattern of the existing economy."

Finally, although Mr. Dieterlen agrees with the French planners that the solution of France's monetary problem "requires 130 per cent of the 1938 production" (actually industrial production is above prewar while agriculture is still below prewar), he strongly objects to any inference that "apart from external loans negotiated between governments and from the combined modernization of basic industries, there is no salvation for French economy and its currency." Indeed, the author sees "other possibilities," along the lines of Poincaré's stabilization of 1926-28.

As Mr. Basch reminds us in his foreword, Professor Rist had "his share" in Poincaré's program; and the dominant impression we get in reading the book is that the authors are firmly convinced that France today can benefit from its own experience of twenty years ago. Is there, however, any such analogy between the problem that France faced in 1926 and that which confronts it today? As an answer to this fundamental question, let me point out that, at the start of Poincaré's stabilization, the level of production was higher in France than in 1947-48; the government budget was broadly balanced; and stabilization could be accomplished through a simple change in the psychological climate: to renew confidence it was sufficient to persuade the French to refrain from demanding repayment of national defense bills and from sending abroad the francs thus obtained. Although the difficulties which France faced in 1926 should not by any means be underestimated, its present economic ills are much deeper today. France consumes more than it produces and is living on its capital and on other nations' aid; its public finance position, in spite of the genuine improvement this year, remains uncertain; and quite apart from balancing the government budget through additional taxation, it must save enough to finance the large-scale investments it embarked upon to make good the war damage and the neglect of the interwar years. Under these circumstances, monetary stabilization is a more complex undertaking than twenty years ago. Yet, Dieterlen and Rist rightly

insist that without monetary stabilization no real economic and social progress can be achieved, and that by putting in order its money and public finance, France can enhance its stature in the Atlantic community.

M. A. KRIZ

New York, N.Y.

Monetary Reconstruction in Italy. By BRUNO FOA. Published for The Carnegie Endowment for International Peace. (New York: King's Crown Press. 1949. Pp. x, 147. $2.25.)

Unlike its predecessors which were by European authors, this third book in the Carnegie Endowment series on European monetary policies was written by an American citizen, a consulting economist by profession and advisor of the Italian Economic Delegation in Washington. Yet, in reading this excellently written book, one is struck by the warmth of its author's feeling for his native Italy.

While full of comprehension for Italy's "truly formidable difficulties," the author is on balance critical of Italy's economic and monetary policies during the period from 1945 until early 1947 when the wait-and-see policy was finally abandoned. He, however, greatly admires the policy since 1947—the "financial masterpiece" of Luigi Einaudi, a professor of economics who, after an enforced semi-retirement under the fascist regime, reached high office in his seventies, serving successively as governor of the Bank of Italy, Deputy Prime Minister and Minister for the Budget, and President of the Italian Republic. The bulk of the book depicts the Italian inflation in terms of this fundamental approach, while the two concluding chapters deal with monetary and economic reconstruction, both through Italy's own effort and through the Marshall Plan.

Italy's inflation, by-product of the fascist economic and military adventure, was accentuated by the post-liberation drift "along the lines of least resistance." In the first place, according to Foa, the Allies were at fault because they neglected what might have been done to mitigate the impact of their expenditures in Italy (Foa holds that the military lira rate was inflationary—an allegation denied by Southard in "The Finances of European Liberation"). Secondly, the Italian policy-makers and administrators, veering toward *laissez faire* and deferring to the "views and whims of minor American officials," "welcomed the practical difficulties" that stood in the way of economic controls, thus buying economic freedom at the cost of additional inflationary pressure. Thirdly, as a result of an "unstable but working compromise" under which the conservative parties agreed to sliding wage scales and the freezing of employment in industry while the leftist parties refrained from pressing for extensive social reforms, wages caught up with or by the end of 1947 even outstripped the increase in the official cost of living—the comparative social peace of this period being secured at the price of a further impetus to inflation. Fourthly, the continuous government deficit financing, while to some extent merely reflecting the inordinate price rise, is blamed for the large additional inflation of 1946-1947. Finally, the premature, partial restoration of the free foreign exchange market in March, 1946 injected into the Italian economy "the

vagaries inherent in exchange depreciation." The new exchange regime was "unsettling," as well as "ultimately incompatible" with the maintenance of domestic price stability.

Among his criticisms, the author puts considerable emphasis on the absence of a "major operation on the currency," which would have entailed a temporary blocking of currency and a capital levy on liquid assets. Had such an operation been supported by conservative economic and financial circles, it would have had "a very good chance of success." Actually, the advocacy of stringent monetary and tax measures was left to the radical parties, while the opinion of those who supported such measures on purely technical and economic grounds carried little weight "in an atmosphere dominated by old-fashioned economic theories." Indeed, the Italian economists and the government were "excessively influenced" by concern lest a currency freeze be detrimental to "confidence" and the propensity to save. In any event, having discarded the idea of a currency reform, the government adopted a "spurious compromise" by simultaneously floating a long-term loan exempt from any future capital levy and declaring its intent to introduce such a levy in the near future. The loan was actually issued and a capital levy adopted, against the background of a rapidly deteriorating situation.

Finally the Bank of Italy, far from being "a purely passive vehicle of government policy," took the initiative in April and again in August, 1947 to arrest the inflation by "a vigorous and ruthless dose of credit control." As was repeatedly emphasized by Mr. Einaudi in defending himself against "savage criticisms," this was not a deflation but "a natural and necessary corrective"—a surgery, not therapy. The effects of the new policy on the exchange rates and prices were "sensational"; under the impact of large-scale dehoarding these dropped sharply, thus paving the way toward a new stablization. In November, 1947, the lira became officially a floating currency—"an extremely bold and novel experiment," which turned out to be very successful.

The author is fully aware that his strong criticisms of the pre-Einaudi era may appear inconsistent with his post-Einaudi praise. To take an example, why should the floating lira of 1946 be bad while that of 1947 was excellent? In the author's opinion, the justification of 1947 rests partly on the differences in the underlying conditions, but essentially on "the vigorous prior intervention in the field of credit which had shaped the underlying economic conditions to such an extent as to make it possible to move toward a free exchange market."

Against the bright side of the Einaudi policy, the author sets its shadows—a 20 to 25 per cent decline in industrial production towards the close of 1947, as compared with the early months of that year. Yet the credit restriction, although quantitative rather than selective, "was not too severe." Indeed, it was necessary in order to "dam the tide of inflation" in a situation that was highly explosive. Another drawback was the growing recourse by industry to government credit, either directly or through the I.R.I., the powerfully government-controlled industrial holding company. The unexpected by-product of the Einaudi policy was thus a shift of the financing burden from the banks

to the government and the growing control of the government over large segments of industry. Last but not least, Italy's industrial economy was so weakened by credit restrictions that there resulted a "ludicrous" situation in which it was unable to absorb fully the fuels and raw material made available under the ERP. Under these circumstances, the author suggests stepping up the rate of Italy's industrial output to the level required to effectively absorb ERP aid. "Grave doubts," however, remain as to Italy's ability to reap the full benefits of ERP.

"Dominated by a combination of obsolete ideas and brilliant improvisions," Italy's economic policy arrested the inflation in 1947, while in 1948 it made remarkable progress toward closing the gap in the balance of payments. There is, however, another side to the picture. The balance-of-payments deficit has been cut merely because Italy's industrial output and national income, and therefore her imports of industrial raw materials and foodstuffs, have been lower than they would have been under conditions of fuller employment. In other words, Italy has solved its balance-of-payments problem largely at the cost of chronic unemployment, the present level of unemployment being almost twice the prewar. With a "bolder, more dynamic, and more aggressive" policy, such as Mr. Foa advocates in his conclusion, Italy might attempt to increase the rate of investment and the standards of consumption; but at what level, and in what way, would it then be possible to close the balance of payments? This is the fundamental dilemma that not only Italy but other ERP countries, together with the ECA, face today.

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New York, N.Y.

Public Finance. By William Withers. (New York: American Book Company. 1948. Pp. ix, 489. $4.25.)

At the beginning of his preface the author states that he has prepared this general text "only because of the urgent need for a *Public Finance* conceived along new lines." The average American reader will infer that he means along Keynesian or New Deal lines, though by implication he criticizes existing texts, not only for their failure to integrate public finance with the main body of economics, but also because of: (1) their over-emphasis of factual detail and inadequate treatment of fiscal problems, (2) meager consideration of the American background of economic and political trends, (3) failure to maintain a socio-economic point of view, (4) failure to recognize the conflicts in economic and political philosophy which underlie all public finance thinking and discussion, (5) failure to view "public finance as a crucial aspect of the growth of the public economy and to appreciate its relationship with the private economy, and (6) lack of "a simple style which the student can follow without undue effort." He goes on to say:

> If there is one major purpose of this book, it is to present the problems and conflicting issues which have arisen from the increasing encroachment of public finance on private enterprise. The theory and content of public finance are changing rapidly with the changing relationships between business and government. The author is aware that the New Deal is but one aspect of

a world-wide trend toward greater public economy. He believes that the teacher has an obligation to create an awareness of this trend in the minds of his students and to give them some appreciation of the seriousness of its implications.

The text, which is not more than half or two-thirds as long as most similar treatises in this field, is divided into six parts: introduction, public revenues, public expenditures, fiscal coordination, public debt, and the economics (incidence and effects) of public finance.

Aside from its emphasis upon Keynesian doctrines, one of the most unusual features of this volume is its Introduction. This takes up one-fourth of the entire text and is composed mostly of what might be called a tax or financial history of the United States. Thus the author supplies the background which his preface implies others have unfortunately overlooked. He sketches 150 years of the perennial conflicts of the large commercial, financial and other business interests on the one side, with the farmer, labor and small merchant interests on the other side—the struggles of the Jeffersonians against the Hamiltonians. Ardent New Dealers will be much more pleased with this sketch and interpretation than will their partisan opponents. The latter will probably dub the Introduction and, in fact, the whole book "propaganda," whereas the author considers it much needed educational instruction or illumination.

Except for the Keynesian slant (not all of which is as new or radical as some seem to think), the treatment of the important taxes and classes of revenue commonly employed in the United States is not greatly different from that of most texts. Because of the long introduction and the smallness of the volume, less than the usual amount of space is given to the discussion of various taxes, expenditures and other phases of public finance.

The author accepts, and presents more clearly than many, most of the Keynesian theories of over-saving, under-investment, "pump priming," compensatory taxing, spending, borrowing and debt management. He approves particularly the use of fiscal policy to control business cycles and to provide full employment of labor and resources, but repeatedly emphasizes "that public expenditures constitute a more effective business control device than taxes."

He is usually careful to present traditional views as well as newer theories so that the student can compare their merits and weaknesses. This, together with his numerous introductory and summary outlines—often in question form—make his text unusually provocative and teachable. There are so many controversial matters, however, and so much is necessarily omitted from such a small text that the instructor should be unusually well prepared and not have too large a class for two-way discussion.

The author apparently has no doubt that there will be a growing acceptance of Keynesian doctrines and a more than proportional, as well as an absolute, growth of the public economy as compared with the private economy; in fact, that this is necessary for the survival of private enterprise—if its survival is possible.

It does not seem appropriate to itemize minor errors and inaccuracies which

are not more than usual for a first edition. Though this volume does not contain anything that cannot be found elsewhere, it is, nevertheless, a good brief presentation that should be made, and as such it is a welcome addition to the growing supply of texts in this field.

Apparently the author, after more mature thought, decided he may have overstated his case and that he should hedge it with a caution. At any rate, the reviewer was interested to find at the end of the volume the following which is a very good summary of what he had decided to say by way of comment:

> We must exercise caution in using public finance to control business fluctuations. Economists are by no means in agreement as to the causes of business cycles. Until these causes can accurately be isolated and measured, fiscal policies for control cannot be planned with assurance. The cure of the business cycle "disease" is now in an experimental stage. Economic "doctors" prescribe remedies based on hypotheses rather than on sound scientific knowledge. Furthermore, the fiscal system is only one among many influences on the economic system, and its effects in bringing recovery must not be overemphasized. To be sure, public finance exercises a broader and more powerful influence as the public economy grows. This growth may now have proceeded to the point where the public economy is the central balancing influence even in the United States, but other factors must not be forgotten, such as interest rates, the size of inventories, market speculation, and the rate of private investment.

While the reviewer is inclined to agree that, under certain conditions, there is probably much validity to many of the proposals of the author (who is much less extreme than some), he nevertheless considers that several of the fundamental assumptions have not been proved and does not agree that the "burden of disproving" these assumptions and conclusions based upon them "rests with private enterprise" any more than the burden of proving them rests with the proponents of the suggested changes.

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British Block Grants and Central Local Finance. By R. E. Carlson. Johns Hopkins Univ. Studies in Historical and Political Science, Ser. LXV, No. 1. (Baltimore: Johns Hopkins Univ. Press. 1947. Pp. 222.)

It must always be very difficult for an outsider to grasp the significance and nuances of such intimate features of another country as are implied in its central/local fiscal relations, at least without extensive personal contacts. Professor Carlson has been singularly unlucky in the timing of his study of the British system of exchequer grants to local authorities. The war prevented him not merely from making such contacts, but also from obtaining access to a number of research studies relevant to his subject. It also greatly delayed not merely the completion of the work, which bears somewhat obvious signs of having been written at different periods, but also, it would appear, its publication. In spite of the use in the last chapter of an article on Derating which was published early in 1945, the analysis of the book essentially ends

with 1944. Since that date there has been a complete revolution not only in the grant system, but also in many of the powers and duties of local authorities which affect their financial position.

While these difficulties and deficiencies must seriously detract from the general usefulness of the book, Professor Carlson has brought together a great deal of information dealing with the grant system since 1888 which will doubtless be serviceable to American students who have not convenient access to further reading. The earlier chapters deal with the period up to the Local Government Act of 1929; the treatment is purely descriptive, and Professor Carlson relies heavily on secondary sources such as Dr. Newcomer's *Central and Local Finance* and my own *Finance of British Government.*

There follows a chapter on local government finance in World War II which is perhaps the best in the book—Professor Carlson has worked carefully through the documents—but apart from exhibiting in exaggerated form the traditional process of pull baker pull devil between the Treasury and the local authorities, by which changes in British local finance normally come about, the episode is now of historical interest only. The one substantial change of function, the nationalisation of fire brigades, has already been reversed—somewhat to the chagrin of the local authorities who now find themselves saddled with a vastly expanded service, quite unnecessarily elaborate for normal conditions.

Of scarcely more than historical interest also are the postwar plans which Professor Carlson examines at length in the following chapter. So far, things have not turned out much like that—except for the emphasis an equalising rateable value per head, on the one hand, and crude population figures on the other, as exclusive measures of the appropriateness of areas for local government purposes (a policy which can be directly traced to the Labour Party and National Association of Local Government Officers plans), and which is now being embodied, on the one hand, in the grant provisions of the Local Government Act of 1948, and on the other, in the efforts of the Local Boundary Commission to amalgamate counties which have substandard populations, much against the desires of the inhabitants, and regardless of physical features and natural lines of communication.

While not wishing to cavil over details, it is perhaps desirable to draw attention to certain points in which Professor Carlson's statements tend to give a misleading emphasis. In the first place, the importance of differences in valuation practice is exaggerated (and hence the usefulness of Rateable Value per head as a measure of relative wealth is underestimated). This is not Professor Carlson's fault: he was unaware of the very important information on rents and rates collected by the Ministry of Health and analysed by my husband and myself.[1] These figures are relevant to the problem of grants in at least three respects: (1) There is virtually no evidence of deliberate undervaluation in order to improve eligibility for grants; (2) on the contrary, a persistent tendency was observed for the poorer areas to be more highly valued than the more wealthy—an additional reason why the grant system

[1] *The Problem of Valuation for Rating,* Cambridge Univ. Press, 1943.

has been less equalising than was hoped; and (3) as a partial explanation of (2) there has been in the interwar period a persistent undervaluation of small new (post-1918) houses in relation to others. Thus, prior to the derating of industry, houses were, by current valuation practice, already enjoying a substantial degree of "derating," a circumstance which partly explains the agitation for industrial derating, as constituting in a sense a compensation for industry.

Again, it is not (as stated on p. 71) the assessment of rates on occupiers which gives rise to interlocal shifting of population; this is an inescapable phenomenon of any local tax where liability varies substantially from area to area. Nor was there "widespread default" by ratepayers during the depression; on the contrary, default was much lower than for the property tax in the United States. Indeed, the evidence suggests that a tax assessed on occupation can be more easily collected in depression than a tax on ownership; especially when liability represents only a modest proportion of even the unskilled labourer's budget—as is the case with rates,[2] thanks to the presence of the grant system.

Finally, on the problem of size in local government areas, it is very easy to exaggerate the wastes due to uneconomically small areas in the British local government system. In one sense, the problem has never been solved merely because the optimum size has continually expanded with improvements in transport and in administrative technique; in another sense, with the concentration of services under the county councils and county boroughs—a process which has been proceeding for a generation—it has lost, in the view of many, the greater part of its significance. The County Councils now administer directly the services for which a large area is appropriate.

The greatest weakness from which Professor Carlson's book suffers—and this again is not Professor Carlson's fault—is the omission of the revolutionary changes in local/central financial relations which have taken place since 1944. Here it is not possible to do more than list some of the most important of these. In the first place, the transfer of virtually all their trading services to national bodies has lost local authorities some revenue; but much more important, it has taken away a great slice of their more interesting powers and duties, thus seriously reducing popular interest in local government. The power of the central government has also been increased by denying local authorities direct access to the capital market, under an arrangement that looks like being permanent. Thirdly, the new health service, operating from the summer of 1948, has transferred local authority hospitals to *ad hoc* regional authorities (combining local authority and voluntary hospitals) thus removing an important source of disequalising expenditure. At the same time, it is already evident that both the health service and the educational changes are going to be much more costly than was originally envisaged; so that eventually the pressure on local treasuries will be heavy.

Transcending all other changes in importance, however, are the provisions

[2] *Cf.* J. R. and U. K. Hicks: *The Incidence of Local Rates in Great Britain,* Cambridge Univ. Press, 1944.

of the Local Government Act of 1948, and more particularly the new grant regulations, which substitute an "equalisation grant"[3] based, almost solely, on rateable value per head and current expenditure, for the block grant, and available only to those areas whose rateable value per head (as adjusted by the provisions of the act) is less than the national average. In this new system traditional Treasury caution has been thrown to the winds, not merely in acceding to an annual revision of grants, but also in agreeing to underwrite additional local expenditure in a manner which, viewed in the light of the past, is frankly staggering. It is already apparent that the invitation to additional spending by the poorer areas is not falling on deaf ears.

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[3] *Cf.* U. K. Hicks: *The Grant Provisions of the Local Government Act,* Bulletin of the Oxford Institute of Statistics, January, 1948.

International Economics

Foreign Economic Policy for the United States. Edited by SEYMOUR E. HARRIS. (Cambridge: Harvard Univ. Press. 1948. Pp. xiii, 490. $6.00.)

An excellent group of essays by twenty-four economists and civil servants has been brought together in this volume by that most indefatigable of editors, Seymour E. Harris. The book does not attempt to cover all aspects of American foreign economic policy; there is no mention, for instance, of shipping, aviation, or telecommunications, no discussion of the work of the Economic and Social Council of United Nations, the International Labor Organization, or the Food and Agriculture Organization, and no systematic consideration of problems relating to strategic resources, economic development, or international investment. But the central issues of policy are presented with clarity and subjected to penetrating analysis.

The book is divided into five parts. In the first, Thomas C. Blaisdell, Jr., and Eugene M. Braderman describe the organization through which the government of the United States formulates and administers its foreign economic policies. In the second, eight authors outline the problems presented to American policy-makers by the economic difficulties of other countries; John M. Cassels and Randall Hinshaw write on Great Britain, J. K. Galbraith on Germany, Robert W. Barnett on Japan, Robert B. Bryce on Canada, Henry C. Wallich on Latin America, Paul A. Baran on the Soviet Union, and John D. Sumner on China. The essays in Part III deal with international agreements and agencies: Allen G. B. Fisher and Camille Gutt explain the policies of the Bank and the Fund, Winthrop G. Brown describes the General Agreement on Tariffs and Trade, and Harry C. Hawkins discusses the problems that arose in negotiating the Charter of the International Trade Organization. Part IV is devoted to the European recovery program: Edward S. Mason is concerned with its significance in terms of political strategy, Sidney S. Alexander with the extent of Europe's needs, Calvin B. Hoover with the prospects for self-help and mutual aid, Kirtley F. Mather

with the relation of the program to American resources, and Lincoln Gordon with the operating problems of the Economic Cooperation Administration. In the final section of the book, the theoretical issues raised by the concept of fundamental disequilibrium are discussed by Alvin H. Hansen, Gottfried Haberler, Paul A. Samuelson, Robert Triffin, and Thomas Balogh.

No reader of these essays can fail to be impressed with the increasing scope and complexity of the international economic interests of the United States, the predominance of our influence, and the extent of our responsibilities. We must learn how to deal with the complete collectivism of the East and the partial collectivism of the West. We must put our defeated enemies back on their feet and, until we do so, we must continue to feed them. We must finance the reconstruction of Europe, insure the recovery of production, and promote the expansion of trade. We must contribute to the economic development of the backward areas of the world. We must take the lead in organizing and strengthening the agencies of international cooperation. And we must act, in all of these matters, with such wisdom, skill, and circumspection that other nations cannot take offense. This is the prescription; it will not be an easy one to fill.

The central theme of the book is the shortage of dollars. It appears in the discussion of the British balance-of-payments deficit, in the description of the economic prostration of Germany and Japan, in the study of trade between the East and the West, in the examination of the problems of Latin America, and in the analysis of the difficulties of Canada. It explains the qualifications that have been written into the postwar agreements on currency and trade and the disappointing performance, up to now, of the Bank and the Fund. It justifies the European recovery program. Most of the authors touch upon this subject, in one way or another, and many of them discuss its causes and explore the possibilities of a cure.

Among the causes, emphasis is placed by some of the contributors upon such structural maladjustments as disorganization of production, international indebtedness, loss of foreign assets, markets, and earning power, and relative changes in productivity, and by others upon mistaken national policies: heavy public expenditures, monetary mismanagement, and the inability or unwillingness of governments to permit necessary adjustments. The prospects for the restoration of equilibrium are viewed with varying degrees of skepticism. Balogh and Haberler represent the two extremes. According to the former, balance between the United States and the rest of the world is unobtainable: the superior technical efficiency of American industry will enable it to undersell its competitors all along the line. According to the latter, balance can theoretically be achieved through adjustment to new conditions of comparative cost; but it is recognized that adjustment may be obstructed by politics. As Samuelson remarks, moreover, disequilibrium may persist as long as the United States is willing to lend and lose and lend again. There is no disposition, however, to force a restoration of balance by prompt alteration of rates of exchange; a free market, at the present time, would not evoke an adequate flow of trade; it would reduce Germany, Austria, Greece, and Italy to starvation and chaos; it would impose upon Western Europe and the

United Kingdom a standard of living that might prove to be politically untenable. But most of the authors would agree that a solution must eventually be sought in devaluation of currencies, suppression of inflation, and enhancement of productivity abroad and in maintenance of employment and increasing absorption of imports by the United States.

Mr. Harris is apparently a strong believer in freedom of speech. At any rate, he has permitted his book to close with a slashing attack on American policy that is frequently inaccurate, generally ill-tempered, and completely inconsistent with everything that has gone before. Mr. Balogh, in the concluding essay, denounces the Bretton Woods Agreements, the ITO Charter, and the General Agreement on Tariffs and Trade, and presents a special plea for the adoption, by the United Kingdom, of a permanent policy of deliberate and systematic discrimination.

Most of England's troubles, it appears to Mr. Balogh, have their origin on this side of the Atlantic. We are too big and strong; anything we do is sure to be wrong. We are determined to have a depression: our imports will fall and England will suffer. Inexplicably, we may prosper: our competitive ability will increase and England will suffer. Our motives are unworthy: we espouse policies that "will tend to perpetuate the present superiority of the United States in relation to other industrial exporters" (p. 474). We won't commit ourselves to cut our tariffs when we fall into depression (p. 473). "The fact that neither the General Agreement nor the Charter outlaws tied loans—a most powerful and discriminating means to promote exports—shows that the United States, well aware of its war promoted superiority, means to retain it" (p. 478). We persistently discriminate against efforts to establish a large-scale economic territory in Europe (p. 477). Small wonder that "the poorer countries begin to suspect that—under the guise of attractive slogans—their relative and absolute inferiority is to be stabilized and their social stability is to be sacrificed . . ." (p. 476).

Much of this is deliberately misleading and much of it is simply untrue. The United Kingdom did not seek to include in the Havana Charter any provision requiring the United States to reduce its tariffs unilaterally in the event of a depression or any provision whatsoever relating to tied loans. It may have escaped Mr. Balogh's attention that the American tariff has been reduced, through trade agreement negotiations and price changes, from a weighted average ad valorem equivalent of 48 per cent in 1930 to one of 15 per cent in 1948. He should, however, be aware that a small minority of American loans is tied, that the 3¾ billion dollar loan to the United Kingdom was not, and that the many billions extended in grants and loans under the Marshall Plan are not. The tied loans are open to criticism, but to complain of them and to ignore the much larger volume of untied loans and grants, of which England has been the principal beneficiary, is to be less than honest in argument. It should be noted, finally, that the allegation of American opposition to the creation of a large-scale economic territory in Europe will come as something of a surprise to the administrators and the foreign representatives of the ECA.

There is one American policy of which Mr. Balogh apparently approves.

He likes the generosity of ERP and looks for more generous treatment by the United States in years to come. But he hopes "that the price paid in renewed political conflict will not be too high and that undue fiscal restrictions on the American administrators of the program will not result in humiliating and harmful dictates of policy leading to strife in Europe and worsened relations with America" (p. 480). A fitting comment appears at the close of the essay by Mr. Mason: "Let us not expect too much from this program in the way of popular approbation abroad. Even if all the European requirements stated in the Paris report were supplied without question by the United States, I doubt whether we should be regarded as a generous big brother. The figure of Lady Bountiful is not an endearing one in literature. And when the position of Lady Bountiful is taken by a country which has half the world's industrial output and enjoys a standard of living unmatched elsewhere, it is too much to except that she shall be voted the most popular member of the class. The one most likely to succeed, perhaps, but not the most popular" (pp. 296-97).

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Major Problems of United States Foreign Policy, 1948-49—A Study Guide. (Washington: The Brookings Institution. Pp. ix, 246. Paper, $1.50; cloth, $3.00.)

In 1946 there was established, as an integral part of the well-known Brookings Institution, an "International Studies Group." This group, composed of some eight or nine members of the Brookings staff, is engaged under the able and experienced direction of Mr. Leo Pasvolsky with the important undertaking of producing an annual document dealing with United States foreign policy. The declared purpose of the document is, first, "to aid in the development of an informed and responsible American public opinion on Foreign Policy" and second, "to contribute toward a more realistic training of the increasing number of American specialists in International Relations." In keeping with this dual purpose the document is aimed primarily at students in colleges and universities, discussion group leaders, public lecturers, editorial writers, commentators, and professional men generally.

The document under review is the second of the annual volumes. Compared with its predecessor, it exhibits a marked improvement in format, style and organization, adds a considerable body of new material and reflects an understandable shift in content and emphasis. At the same time, it retains the identic assumption regarding foreign policy and the same approach to its understanding that were emphatically visible and widely applauded in the initial volume. Although neither the assumption nor approach are altogether new, their explicit formulation is sufficiently unorthodox to give significance to the entire venture. The document is not just another book on foreign policy.

The assumption is the relatively simple one that an understanding of

foreign policy is enhanced by looking at it through the lenses of responsible government officials charged with the duty of making decisions. The approach is called the "problem" method.

Assumption and approach combine to inject into the study of international relations a spirit of sharp realism, admirably calculated to serve as a counter balance to the approach of many extremists who, either unaware of the restraints imposed on policy making or restless in the face of them, advocate "ideal" solutions to concrete problems. Followers of Mr. Wallace and advocates of World Government will not find in this document anything which necessarily refutes their views on foreign policy. What they will find is a different approach, a different "time" orientation and a sharpened area of concentration. The document speaks not to the dilemmas of a distant future, but to the problems of a distraught present.

Among the problems of the present, the Japanese Peace Settlement, Economic Assistance to Latin America and the Veto Problem in the United Nations were considered sufficiently pressing to justify special treatment in what are called "Problem Papers." (The conspicuous absence of Germany is explained by its presence in the preceding volume and by subsequent coverage in monthly supplements which keep the basic documents up to date.) The "Problem Papers" occupy approximately half the volume, the other half being devoted to background material describing "The Present Position of the United States in World Affairs" (approximately 30 pages), a "Review of Major Problems," analyzed both geographically and functionally (approximately 100 pages), and helpful appendices including a description of the complicated mechanism for the conduct of United States foreign relations.

The "problem" approach reaches beyond description, in that specific "issues" are ferreted out, identified and then broken down into alternative courses of action, only one of which, presumably, may be chosen by the harassed policy maker. This approach, which bears some resemblance to the intellectual processes embedded in the well-known military "estimate of the situation," presumably reflects actual practice and in so doing brings instruction in foreign policy down to earth. By way of example, the "Problem of Economic Assistance to Latin America" is broken down into six major issues, each calling for policy decisions to which are added four other issues on which an expression of United States policy would be desirable, even though decisions may be postponed. A typical issue of the former kind concerns steps to be taken to stimulate private investment, one alternative being "to pursue a hands-off policy until the Latin American Governments themselves create a favorable climate for foreign investment," the other being to attempt to negotiate agreements along the lines set forth at Bogota. In the body of the document reasons for choosing each alternative are concisely indicated without, however, any expression of preference.

Perhaps enough has been said to show the nature of the volume under review and the character of the enterprise of which it is an important part.

Great care has been manifested in its preparation including, during the drafting stage, the solicited criticism of many individuals concerned directly or indirectly with foreign policy. Its virtues, and they are virtues of a high order, are that it has tended to supply a spirit of realistic inquiry in a field not altogether noted for rigorous analysis. Furthermore, it may be expected that the work will continue to improve as experience demonstrates the need, which this reviewer, at least, believes to exist, for reaching beyond the present effort to one which not only identifies and fragmentizes issues, but relates them back to a set of carefully analyzed "interests" ("objectives"?) so that value judgments may be made with a clearer understanding of their implications for the national security, world stability, the economic well-being of the people or the desire to encourage democratic tendencies the world over. If it is possible to speak of a weak spot in the present volume, it is believed it can be found in that part of the document (pp. 9-27) in which this is attempted. Lack of rigour is evident, not alone in the verbal confusion caused by the too indiscriminate use of such terms as "aims," "objectives," "responsibilities," "interests," "ideals," "principles," "attitudes" and "forces," but in the failure to show clearly the character and extent of our interests, their relation to general policies and the relation between general policies and specific commitments. It is worth remarking that in the absence of some such frame of reference, value judgments are apt to be obscured and hunch, common sense, or assumed wisdom tend to steal the show.

The document under review, despite the great care which has gone into its preparation, provides this frame of reference only partially by a brief preliminary sketch dealing with the "bases" of United States foreign policy followed by a careful but purely descriptive account of recent developments. This is believed to be insufficient even after allowance is made for the fact that the document attempts to avoid value judgments by refraining from advocating any particular policy or set of policies. Alternatives are stated but not "evaluated." Given the purposes of the publication, this sense of restraint is commendable. It may be indulged, however, while still recognizing that value judgments are implicit in the sifting of "relevant" facts, the identification of issues and the statement of alternatives as Messrs. Gromyko, Vyshinsky and Molotov would readily discover should they chance to study them. What is urged is not that value judgments be made explicit but that the basis for making them be analyzed more thoroughly. Or, to repeat, that a better framework be supplied against which to project the analysis of facts, issues, and alternatives.

It may be objected that this would require another book and thus falls outside the scope of legitimate criticism. By way of answer it is suggested that this is the heart of the business and thus deserves more respectable treatment by a group which in the short space of three years has already demonstrated its high capacity by making a worth-while and distinctive contribution toward creating a more informed opinion on foreign affairs, and a better understanding of the practical dilemmas confronting policy makers.

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Great Britain in the World Economy. By Alfred Edward Kahn. (New York: Columbia University Press. 1946. Pp. xvii, 308. $4.00.)

The value of this study lies partly in the clear and precise account which it gives of the long-run trends which weakened and undermined the British world economic position during the years 1919-1939 and the economic and policy adjustments of that period. It lies partly in the theoretical framework within which these events are discussed.

Mr. Kahn is in search of an "organic theory of international equilibrium" which will prove more helpful and enlightening for the study of the basic changes in the world economy now taking place than the "accepted" theory. The only fruitful analysis of the balance of payments "must," he feels, "be in terms of actual cyclical and secular process, of actual complex patterns of cause and effect in mutual interplay and in continual transition, constantly disrupting and readjusting to a real world." He criticizes "accepted" theory mainly because of its tendency to isolate a single cause of maladjustment and then rest content with showing that equilibrating forces will be set in motion. This neglects the nature of the transition during which the equilibrating forces are operative, the cyclical and secular factors that may make the adjustment difficult or easy, and many other relevant considerations.

For these reasons, Mr. Kahn presents his material as, in part, "a case study" for the development of an organic theory. In developing this approach he defines "equilibrium" in a country's balance of payments as "a situation in which over a period of time long enough to exclude seasonal and minor discrepancies the total supply and demand for means of foreign payment are equated, without continuous short-term capital or gold movements in one direction, or sizable fluctuations in the external value of currencies, or default, or measures of control employed to maintain this equality."

Mr. Kahn does not, as sometimes happens, neglect his theoretical approach when dealing with his historical material. He consistently uses the British experience to illustrate the simultaneous operation of the various complex elements leading away from and towards equilibrium that are to be part of the completed organic theory. His emphasis throughout is on the basic long-run trends that have been responsible for weakening the British international economic position and on the economic and policy adaptations to this changed position. He fully recognizes, of course, that the changes in public policy of 1931-32 were a revolutionary readaptation to a changing world situation after the failure of an attempt to rebuild along traditional lines. But he consistently treats the real determinants of British economic policy as independent economic forces, largely beyond the power of British policy to control, and operating continuously over the whole period.

These real determinants are discussed in a general chapter on The Deteriorating Position of British Industry and two chapters on The Decline and Adjustments of the Staple Trades and The Expanding Industries. These chapters are very well balanced. They contain a good deal of cogent criticism of industrial organization and management in Great Britain, particularly of the so-called industrial self-government of the period, but they end on a hopeful note. Mr. Kahn concludes that there was, during these years, a sub-

stantial adjustment to an altered international competitive position in the staple trades, and a successful adaptation of the economy as a whole to the altered international position of British industry.

With this preparation Mr. Kahn analyzes the basic trends in the British balance of payments from 1919-1939 and the adjustments of policy before and after the abandonment of the gold standard. It is in these chapters that the character of the book as a case study towards an organic theory of international equilibrium is most strongly brought out. This gives to a survey of very familiar material an interest and freshness of treatment that will be appreciated by those who have long labored in the field.

The basic problem posed by Mr. Kahn's book is whether or not, in the interwar period, the adjustments in the British economy to an altered international position laid a solid foundation for working out the long-run problems that have persisted into the post-World War II period. In this connection his discussion of the shifting geographical pattern of British exports and imports over the long period 1815-1939 has a special value. In this long perspective he finds that the withdrawal of Britain into a "more closed and regulated regional system, with Britain as the center, attempting to maintain ever closer economic ties with younger, largely primary producing countries of the empire and sterling area" was but an intensification of trends apparent well before 1929 and even 1914. Mr. Kahn, however, reaches a rather firm conclusion that the opportunistic and defensive policies which characterized British foreign trade policy at the end of the inter-war period were being pursued at too great a sacrifice of the advantages of genuine multilateralism. Had not the Second World War intervened, the time would have been ripe for a reversal of policy.

In concluding chapters on The Position of Britain in the Post War World, written during the war itself, and before the Marshall Plan, Mr. Kahn ventures some speculative answers to his basic questions. Since these look beyond the readjustments of the immediate postwar period they have not become out of date. What Mr. Kahn foresees is a period of even greater strain on the British balance of payments than in 1919-39, partly due to the stimulation of competing industrial production rather than primary production by international investment. This can, however, be substantially offset, by a far more effective reconstruction, reorganization and re-equipment of Britain's productive machine for the satisfaction of the demands of the home market than was carried through from 1919-1939. Much will depend on whether or not the sum total of world trade will be increasing so that a diminished share in this trade by the United Kingdom will not entail an absolute decline in British foreign trade.

Mr. Kahn's book contains many interesting discussions of special points such as the long-range shifts in Britain's terms of trade, the changing relations between her capital export and her trade balance, and the changing pattern of triangular settlement between the United Kingdom, the rest of the sterling area, and the rest of the world.

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Le Plan Marshall. By FRANÇOIS PERROUX. (Paris: Librarie de Médicis. 1948. Pp. 222. 200 fr.)

Grandeur ou Décadence du Plan Marshall. By J. LÉVY-JACQUEMIN. (Paris: Librairie Marcel Rivière et Cie. 1948. Pp. 75. 120 fr.)

These two French books on the Marshall Plan may be considered remarkable not so much for their content as for what they do not say. In neither of them is any word of the concrete recovery problems facing France or Europe. Of the three aspects of the Marshall Plan—self-help, mutual help and aid from the United States—these books deal only with the last.

If they deal with the Marshall Plan mainly from the familiar point of view of United States aid, however, neither book is without interest for the American economist. Perroux' most interesting essay deals with the responsibilities of an "internationally dominant economy," *i.e.,* the United States. Lévy-Jacquemin offers a new theory of international economics and a concrete proposal to replace the antiquated "equilibrium system." Neither book may be said to deal definitively with the Marshall Plan or disequilibrium in international trade and finance; both are readable and suggestive.

Perroux' five essays, first published over the thirteen months from June 1947 to June 1948, appear to have been designed to reassure worried French readers. The first article, apparently written before both the Harvard speech and the Molotov response to it, defends economic cooperation among neighbors, whatever the attitude of the big powers. The last three set forth an analytical description of the Marshall Plan and its evolution from 19th century private lending via the "neo-liberalism" of the Bretton Woods agreements.

It is in his second essay on the internationally dominant economy, however, that Perroux is at his most paradoxical and suggestive. The Marxist view of economic imperialism, he indicates, is naïve. The theory of imperfect competition has been inadequately applied to international relations, but it is clear that a dominant economy may have a more effective course of action, in the long-run, than short-run exploitation. The intentions of the United States, by inference, may be held to be honorable because the United States, like any other oligopolist, finds it pays in the long run to behave honorably. International economics based upon trade among equal partners is irrelevant to today's problems.

Lévy-Jacquemin is also disposed to jettison a great deal of the classical apparatus, including primarily the major premise of a continuous tendency to equilibrium. In his view, the system operates to perpetuate disequilibrium. Countries should be ranked in a system A, B, C, and D, each tending to have an export surplus *vis-à-vis* countries in the next lower category. At the present time, the United States finds itself in category A; Canada, Argentina, Brazil, etc., in B; Britain, France, Italy in C; and at the end of the scale in D, the backward and underdeveloped countries of the world. The tendency of the United States to perpetual surplus arises from the American propensity to oversave or underconsume combined with our political unwillingness to spend on internal public works.

The measure needed to make this system function, in Lévy-Jacquemin's view, is loans by the United States to backward areas made through the countries of Europe. Offshore purchases under the Marshall Plan are a step in the right direction and a major advance from the tied loans of the Export-Import Bank and Bretton Woods, which are incompatible with multilateralism. After the fruition of the current European investment, however, the next requirement is continuous loans from A to D, so contrived as to let B and C balance their accounts multilaterally.

This thesis cannot of course be taken at its face value. It is asserted rather than argued. And far more important, it neglects the propensity of the United States to import on balance from raw material and tropical areas. Yet it contains flashes of insight, which have a bearing on the rationale behind Point 4 of President Truman's inaugural speech.

In short, both books are worth a perusal.

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Business Administration

Marketing: Principles and Methods. By CHARLES F. PHILLIPS and DELBERT J. DUNCAN. (Chicago: Richard D. Irwin. 1948. Pp. x, 729. $6.00.)

Introduction to Marketing. By PAUL D. CONVERSE and FRED M. JONES. (New York: Prentice-Hall. 1948. Pp. viii, 606. $5.65.)

The basic pattern of textbooks in marketing was established some years ago and has seldom been violated. New books, and revisions of old ones, have been justified chiefly by substitution of current statistics and citations for obsolete ones, but the concepts and topics have remained unchanged. The books under review exhibit minor variations from the pattern, but are unlikely to provide any surprises for marketing instructors. On the other hand, judging from the unsophisticated discovery of marketing facts recently evidenced by anti-marginalist writers in economic journals, those economists who have never read any marketing book might do very well to examine one or both of these.

The Converse and Jones volume is an offshoot from a well-established marketing textbook by Converse. It is deliberately designed as a more popular presentation, and seems aimed at high school students or nonacademic small businessmen. Perhaps the market for such a work commercially justifies its publication. It hardly seems suitable, however, for a course in marketing at the collegiate level. The chief innovation of the book is its emphasis on retailing; 368 of its 588 text pages are devoted to this topic. The approach of this section is on "how to run a store." This undoubtedly has an appeal for thousands of readers, since there are more small businessmen in retailing than in any other economic category. For such readers, this book may be considered better than the usual popular work on retailing, since it does provide some background of general marketing. Moreover, students find retailing easier and more familiar than any other phase of marketing, and the opera-

tional approach appeals to many of them as "practical." The condensation of other standard marketing material, however, means that a student using this text only would be inadequately informed on marketing in general. Nor would he find in this volume any guide to further reading, for there are no bibliographies and the footnote citations are notably sparse.

The Phillips and Duncan volume covers the usual material of marketing in a thoroughly satisfying way. The statistics and references are copious and up-to-the-minute, and the statistics are better organized and digested than is common in marketing books. In its effect on most marketing writers, the inauguration of the Census of Distribution in 1930 was the worst thing that could have happened to development of the study of marketing, for it has resulted in textbooks filled with figures on the number of middlemen of each type, their sales volume, etc. Phillips and Duncan have done better by these data, in pointing up the significance of various Census tabulations. They have, beyond that, been conscientious in seeking for non-census sources to bring their figures up to date in so far as possible. Further evidence of careful preparation is shown by the excellent reading references and the listing, for each chapter, of Harvard cases appropriate for use with the text material.

A differentiating feature of the book is its emphasis on the consumer. Two of the early chapters are devoted to the ultimate consumer's buying motives and problems and most of one chapter to consumer statistics; this is followed, contrary to custom, by a chapter on the industrial user. The preface explains that it is recognized that the customer—whether household consumer or industrial user—is the proper starting point for all marketing plans. But the text material goes beyond the viewpoint of the sales manager and the strategy of exploitation of the consumer. In one chapter, the marketing system is examined from the viewpoint of the consumer, and is found somewhat wanting; there follows a discussion of the "consumer movement" and the business and government aids to the consumer. The authors' interest in the consumer is shown further by a lengthier section on consumer cooperatives than is usual.

While Phillips and Duncan do not go very far in satisfying the current demand for development of marketing theory, their chapters on pricing remain the strongest to be found in marketing texts. The theory of monopolistic competition, which Phillips introduced to marketing texts in his 1938 edition, is briefly but adequately explained. It is followed, however, by the customary series of unrelated and unanalyzed paragraphs on various pricing policies used by manufacturers and merchants. These marketing facts regarding pricing practices stand as a challenge to economists and marketing students alike; perhaps theory in both fields may be improved by more serious consideration of the relation of marketing price policies to economic theory.

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Introduction to Business. By Lewis A. Froman. (Chicago: Richard D. Irwin. 1948. Pp. xxv, 601. $4.25.)

This book is written as a text to be used in a first course in business.

Its usefulness, as is the case with textbooks generally, will depend on such factors as the relation of the course to other courses in the curriculum, the equipment of the students and the reliance placed by the instructor on the textbook.

In many institutions the typical student in a first course in business is a college freshman without business experience who is taking courses in the social sciences simultaneously and who will ultimately have the benefit of a comprehensive curriculum. At the other extreme is the beginning student in the evening division who is likely to be more mature and experienced but who will not be taking any other "general" course at the same time and who may benefit from an introduction to the social sciences as well as an introduction to business.

Dr. Froman's book appears to be planned with the interests of the latter group of students in view. In a section on "The Functions of Business Enterprise" there is a page on the hedonistic concept of choice and a paragraph which distinguishes capitalism, socialism, and communism. Treatments of roundabout production, risk bearing and Utopian socialism are included.

The other sections of the book include one on "The Nature of Business Enterprise" containing chapters on Manufacturing, Extractive, Public Utilities and Trade and Service Industries as well as Financial Enterprises and Agriculture. The section on "Problems of the Business Unit" has chapters on Form, Size, Internal Organization, Management Controls and Employee Relations. The final section is concerned with "The Role of Government" and includes chapters on Monopoly Regulation, Taxation and Government Enterprises.

These matters are presented so that the student always remains at a safe distance from the turmoil, triumphs and anxieties of business operations and the problems confronting society receive greater emphasis than those which consume most of the time of business management. For instance, the discussion of public utilities includes paragraphs on natural monopoly, the importance of coal as a source of energy and defines watergas and coke-oven gas. It gives little idea of the nature of the problems to which the management of a public utility devotes itself and the characteristics which would distinguish a well-run utility from one poorly run.

The chapter on financial enterprises devotes a paragraph to the fact that national banks issued bank notes before 1935 and a page and a half to credit unions. It gives no idea of commercial banking as a business in which some prosper and others fail or the relationship of the business enterprise to its banker. Bonds are treated only from the point of view of the investor and not from the point of view of the borrower.

There are some who believe that a major function of the introductory course in business is to provide an insight into business as a career. Not only the college freshman, but a large proportion of the students in clerical or other routine jobs who attend evening courses have very little idea what an executive of a copper company, a tire manufacturer or a brokerage house really does. Every course might well strive to indicate the problems, the

skills, and the challenges which specific careers in business afford. No textbook can do this job by itself but every introductory text might well assume its share of this responsibility. Dr. Froman is likely to find that his colleagues in the social sciences will supply any deficiencies he might leave if he sacrificed breadth for penetration and inspiration. He cannot assume that similar help is available to supply the demands of the young man or woman seeking guidance toward a career.

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Industrial Organization and Markets; Public Regulation of Business

Small Business: Its Place and Problems. A Research Study of the Committee for Economic Development. By A. D. H. Kaplan. (New York: McGraw-Hill. 1948. Pp. xiv, 281. $3.25.)

Within the last decade and a half the subject of small business has gradually emerged as a new and recognizable segment of economic inquiry, with its own fields of research and its own niche in the structure of economic theory. This new study, prepared by Dr. Kaplan for the Committee on Economic Development, represents the most comprehensive and inclusive contribution yet made to the small but rapidly growing body of economic literature in the field. Taken in conjunction with Steindl's work on the place of small business in economic theory[1] and Weissman's work on the financial problems of small firms,[2] Dr. Kaplan's well-organized and clearly presented study should provide the reader with an adequate knowledge of most of the theoretical and practical problems in the field, the principal topics of research, the major points of controversy, and the bases for the development of a sound public policy.

Quite properly, Dr. Kaplan begins his work with an analysis of the various standards used in defining small business. He arrives at a composite definition in which the principal elements are "1 million for volume of business, $500,000 for total assets, and 250 employees for personnel," with the type of firm consisting of a "single independent organization directly under the supervision of its owners who are also its managers—whether incorporated or not." Although to some this definition may seem to take in a lot of territory, it falls far short of Thurmond Arnold's highly pertinent definition of small business as any firm which is unable to maintain a lobbyist in Washington.

Dr. Kaplan then summarizes available statistical evidence on the position of small business in the various branches of the economy, on trends in the business population, on discontinuances and failures, on longevity and turnover, and related topics in the general field of business structure.

Moving from structural to functional characteristics, he next examines the highly important subject of the relationship of size to efficiency. Although here again he offers no new primary data, the conclusions which he derives

[1] Joseph Steindl, *Small and Big Business* (Oxford, Basil Blackwell, 1945).

[2] R. L. Weissman, *Small Business and Venture Capital* (New York, Harper, 1945).

from the existent information on unit costs and profits represent an excellent summary of the state of present knowledge. Thus his principal conclusions are: "(1) The differences in efficiency among the small enterprises themselves are more extreme than those between small and large firms. . . . (2) The middle size firms of an industry commonly make a better average showing on costs and earnings than do either the giants or the smallest members. (3) The over-all tendency is for unit costs to diminish as size increases until the big-business category is reached. But the very largest member of an industry does not usually show the lowest cost or the best profit rate on invested capital. In most cases a firm in the middle range makes the best showing, and frequently a small firm leads the industry in this respect."

The remainder of the book is devoted to the three types of corrective action most urgently needed by small business—management assistance, financial aid, and the preservation of competition. In regard to the first, Dr. Kaplan emphasizes the pervasive absence of management guidance for small business, which all too often is compounded by the reluctance of the small enterpriser to learn new methods and techniques. In addition to a needed expansion in private sources of management assistance, as in trade associations, industrial engineering, market-research firms, etc., Dr. Kaplan feels that "the Bureau of Standards should be authorized to serve small-business groups more aggressively with respect to information on technological developments," and that the Department of Commerce should act as a "clearing-house," gathering and disseminating technical information through the various organizations and agencies serving small business.

In regard to financial aid, Dr. Kaplan summarizes the various studies which have been made on this problem and comes to the inevitable conclusions that, by and large, small firms are unable to secure funds through the security markets; that even when the small company is able to use this avenue, the costs of flotation are all but prohibitive; that long-term credit, though on the increase, is still far from being generally available to small business; and that direct investment by individuals has tended to dry up, due largely to the high rates of taxation and to the progressive concentration of population in large cities, with the consequent weakening of personal ties and relationships. After surveying the various proposals which have been advanced to meet this problem, including community industrial development organizations, direct government loans, and loan insurance (the last being treated in a rather cursory and uncritical manner),[3] Dr. Kaplan recommends the establishment of a network of capital banks under Federal Reserve Board supervision, with the commercial banks in each Federal Reserve district authorized to subscribe a small percentage of their capital and surplus in a district

[3] Pp. 167-68. For a fuller presentation of a possible loan insurance program, see House Small Business Committee, 79th Cong., 1st sess., *Hearings*, Pt. 2, H.R. 64, *Financial Problems of Small Business*, 1945, pp. 997-1031; Smaller War Plants Corp., *18th Bimonthly Report to Congress, June 1945*, pp. 11-14; and House Agriculture Committee, Special Subcommittee on Cotton, 80th Cong., 1st sess. (Pace Committee), *Hearings*, 1847, pp. 586-87.

capital bank, which initially could grant credit and perhaps eventually purchase the stock of small firms. As a means of greatly expanding its ability to render financial aid, Dr. Kaplan suggests that each capital bank might be "put in a position to place its debentures or rediscount paper with the Federal Reserve Banks at rates low enough to permit a fair return on the expanded employment of its funds."

In his final chapter, "Competition—Means and Ends," Dr. Kaplan describes the effects on small wholesalers and small manufacturers of the forward expansion by large producers into the distribution field; cites the "introductory pricing" and other recently revealed discriminatory practices of the A. & P. as illustrative of those types of activities against which no small distributor can possibly compete; condemns the fair-trade laws and argues that small business in supporting them is actually working against its own best interests; denounces interstate trade barriers and similar legal restrictions to a free market; advocates a reform of the patent laws; and urges labor organizations to be flexible in dealing with small business and not to expect small competitive firms to be able to meet the same terms and conditions as can be granted by large firms enjoying a monopolistic position.

In the opinion of this reviewer, this well-rounded work has only one flaw, which however is a serious one, namely the comparative lack of attention given to the problem of economic concentration, a problem which certainly deserves somewhat more consideration in a discussion of the "place and problems" of small business. This criticism is based on the following observations:

1. In analyzing the position of small business, he relies principally on data relating to the *number of small firms,* rather than the *proportion* of activity or resources accounted for by small business. This use of data on numbers, which incidentally leads to some optimistic inferences concerning the position of small business that would not be supported by data on proportions, is particularly surprising in view of (a) Dr. Kaplan's own recognition of the great weakness of data on numbers, which are tremendously influenced by the turnover in one-man and other tiny establishments (*cf.* pp. 43, 56, 234), and (b) the existence and availability of a large body of statistical information on proportions which could have been used in the analysis.

2. In the one-and-a-third pages which he does devote to the topic, "Industrial Concentration," he fails to cite any of the available data on the level or trend of concentration, as measured on a corporate or company basis, confining his analysis to the "establishment" or plant data of the Census of Manufactures (pp. 38-39). Although most of the material that he does cite, which incidentally is limited to the period 1929-39, indicates a general increase in concentration, about half of this brief discussion is concerned with something which Dr. Kaplan describes as a "hopeful aspect," namely, a slight decline which took place in the relative share accounted for by the largest size group. This decrease, however, was probably due in large part to the decline in general economic activity, or more specifically to

the greater-than-average decreases which probably took place in the most highly concentrated fields—heavy goods, capital equipment, etc.

3. Dr. Kaplan makes a number of assertions which seem to imply that the proper place of small business should, or, at least, will be as an adjunct or "auxiliary," rather than as a competitor, to big business. Thus, "It is more likely that small enterprise will develop as auxiliary to its larger competitors" (p. 52; *cf.* also, pp. 103, 235). In view of the conclusions which he has arrived at concerning the relationship of size to efficiency, such an observation necessarily implies that the dominance of big business and the "auxiliary" status of small business will be the result of non-efficiency factors, *e.g.*, greater economic power, resources, etc. Not only has Dr. Kaplan failed to spell out this logical conclusion of his argument, but he has also failed to exhibit any particular concern over such a state of affairs.

4. Although he recognizes the existence of the postwar merger movement, he quickly dismisses it as a factor of any importance, stating that the "phenomenon has not, however, reached the proportions of the decade following the First World War" (p. 234). This, of course, is a perfectly safe observation since it would be rather difficult for the merger movement to have achieved the same "proportions" in the three years following World War II that it attained in the "decade" following World War I. If Dr. Kaplan had compared the current merger movement to the first three years rather than to the "decade" following World War I, his statement would still have been true, though to a much lesser extent, since the average number of mergers in the period of intense activity immediately following World War I exceeded the number during the comparable three-year period following World War II by only about one-quarter. The real significance of the current movement, which Dr. Kaplan neglects to point out, is that the increase in concentration resulting therefrom is superimposed upon an already extremely high level of concentration which, itself, is, in large part, the product of earlier merger movements.

5. Finally, in discussing what direct remedies are needed to meet this problem of the concentration of economic power, Dr. Kaplan is, for the most part, rather vague, indulging in such broad generalities as a recommendation that the antitrust laws be "recast into a consistent body of legislation" (p. 245), or that the antitrust agencies should "keep the channels of competition open" and "keep a watchful eye on the potential squeeze that integrated big business can apply to smaller independent units" (p. 217). This leaves the reader in the dark as to his attitude on such specific issues as the need for legislation to arrest merger activity, the desirability of implementing an effective dissolution program, the necessity of breaking up financial and corporate inter-relationships that eliminate competition, and other specific measures designed to arrest the growing concentration of economic power and prevent the complete extinction of the subject of this book.

Aside, however, from his treatment of this crucial subject of economic concentration, there can be little doubt that Dr. Kaplan's book represents

the best general work yet written on the subject of small business. It should definitely be included among the supplemental readings in all courses in the fields of industrial organization, public control of business, and business finance.

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Problems in Price Control: Stabilization Subsidies. Pt. I, *Stabilization Subsidies, 1942-46,* by SEYMOUR E. HARRIS, Pt. II, *Wartime Subsidies and Food Price Stabilization,* by PHILIP RITZ. Edited by PETER G. FRANCK. Hist. Reports on War Admin., Office of Price Administration, Gen. Pub. No. 10. (Washington: Supt. Docs. 1948. Pp. xii, 241. 45c.)

The economist who wishes to form a judgment on the effectiveness of wartime stabilization subsidies will not find a completely satisfactory answer in this volume, but if he is willing to read through a good deal of overlapping and somewhat repetitious material, he will acquire a reasonably adequate idea of the various subsidy programs and the reasons for their adoption. The volume, which is one of the general series of Historical Reports on War Administration, would probably have been more readable had it been entirely the work of one author. While Professor Harris deals chiefly with the non-food subsidies and Mr. Ritz with the crucial role of food subsidies in holding down the cost of living, both authors devote considerable space to somewhat similar analyses of the general role of subsidies in the price stabilization program.

On the whole, Part II is considerably more informative than Part I, for its chronological form of presentation results in a systematic account of the evolution of subsidies from the early days of the defense program through the final breakdown of price control in the autumn of 1946. The political as well as the economic factors which led to shifts in policy are brought into the discussion in a highly illuminating manner. Part I, on the other hand, devotes a number of chapters to a classification and description of the various types of subsidies but makes little attempt to trace their history through the later years of the war and the immediate postwar period.

Both authors seem completely agreed that the subsidies which took the form of incentive payments to encourage high-cost marginal production were a decided success. In these cases, it was easy for OPA to demonstrate that the savings to both consumers and the Treasury far exceeded the cost of the subsidy, with the result that this type of subsidy aroused virtually no opposition. Much the same conclusion can be drawn, apparently, with respect to a number of programs in which government agencies absorbed losses in order to protect domestic price ceilings from the impact of various types of uncontrollable cost increases, especially those involving increases in war-risk insurance rates, shipping costs, and foreign sellers' prices. For many commodities, imports represented only a fraction of the total supply,

and the subsidies prevented the higher cost of the imported portion of the supply from forcing a break-through in the domestic price ceiling.

With respect to subsidies which were paid "across-the-board" (*i.e.,* to all dealers at some stage of production or distribution) the case is much less clearcut, although both Professor Harris and Mr. Ritz attempt to show that the savings resulting from such subsidies exceeded the cost. The net effects of programs of this type are far more difficult to analyze, especially when one attempts to take into account the probable indirect effects of averted price increases. As Mr. Ritz points out, the estimates presented by OPA experts in justification of such subsidies failed to draw a clear distinction between net savings to the Treasury and to the general public. Nor was any account taken of the higher tax revenues which would have accrued to the Treasury if prices had been allowed to rise.

Actually, it is doubtful if the case for across-the-board subsidies could ever be fully presented in statistical terms. When the subsidy program was substantially expanded in the spring of 1943, the basic consideration, as both authors suggest (though not, I think, with sufficient emphasis), was the possibility that a serious break in the price line would lead to a succession of wage and price increases which in the end might become uncontrollable. In the absence of subsidies, the price line could not have been held in a number of important cases without discouraging production.

The last word on the subsidy problem will certainly not have been written until a careful study is made under unofficial auspices. While there is no attempt to "white-wash" OPA in the present volume, it is none the less clear that an official history of this kind needs to be supplemented by a study which can consider fully and frankly such matters as interagency conflicts and the influence of changes in top OPA personnel. Such a study would be especially valuable if a comparison could be made with British and Canadian experience.

MARGARET S. GORDON

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The Marketing of Surplus War Property. By JAMES ALLEN COOK. (Washington: Public Affairs Press. 1948. Pp. ix, 211. $3.25.)

This is the first detailed report on the disposition of World War II surpluses to be published.

Of the approximate $27 billion of property declared surplus, by late 1948 probably less than one-tenth remains in inventory. The surplus property disposed of includes industrial plants, aircraft, merchant ships, and capital and consumer goods. Dr. Cook describes the different disposal problems of each group and the difficulties and complexities within each group with two purposes in mind: first, to determine whether the shortcomings of the disposal program were legislative or administrative; and second, to recommend revisions of the law and policies or procedures of the War Assets Administration so that the disposal of the remaining surpluses will be more rapid. Unfortunately, about two years have already elapsed since

the major part of the report was completed in early 1947. It is worth while noting, however, that several of the major recommendations made by the author, both legislative and administrative, have already been put into practice.

Dr. Cook points out that many of the industrial plants to be sold were large in size, or "scrambled," or of no apparent civilian use, or poorly located (for civilian purposes). In view of these obstacles, it is obvious that the disposal rate would not be too rapid. He is, however, optimistic about the future disposal rate, particularly if the Congress enacts a "stand-by" program.

According to Dr. Cook, the Administration in the disposal of industrial plants contributed little in achieving one of many major objectives laid down by Congress, namely, "to discourage monopolistic practices and to strengthen and preserve the competitive position of small business concerns. . . ." He states that the country's 250 largest corporations secured about 70 per cent of all plant disposals (measured in terms of original cost).

The position of the War Assets Administration, illustrated in the case of aluminum plants, was that large competitors had already entered the industry. These entries apparently have not resulted in the infusion of a competitive spirit in the aluminum industry. The Department of Justice recently instituted action in the Federal Court requiring the Aluminum Company of America to divest itself of some of its property since the disposal of war plants had not established competitive conditions in the industry.

In the analysis of this problem, Dr. Cook accepts the Administration's statements, first, that it had no alternative in the disposal of industrial plants since Congressional policy was not specific enough; second, that the Department of Justice had the responsibility of approving the disposal of plants worth $1 million or over; and finally, that the plants were large and could not be broken down. He fails to evaluate the problems and policies with a view toward determining the reality of the problems and the adequacy of the policies.

It seems to the reviewer* that the Administration could have met, at least in part, the Congressional mandate. For example, the Geneva Steel plant was sold to U. S. Steel rather than a new group. Here was an opportunity to add a competitor to an industry. Although I have heard officials of the War Assets Administration point out that there were no other responsible bidders, it seems to me that the Administration could have followed a positive policy by seeking out and assisting new firms.

Dr. Cook is not satisfied with the rate of disposal of consumer and producer goods. Here he has described and examined excuses rather than reasons. The major obstacle, in his opinion, was the priority system. There is no doubt that disposals would have been more rapid without it. (But if procedures delay the achievement of democratic objectives, we do not discard the objectives!) In the opinion of the reviewer the planning of a "pipeline of dis-

*The reviewer was employed by the War Assets Administration during 1944-1947.

posals" could have been developed so that there would have been a continuous, high disposal rate. A second obstacle, according to Dr. Cook, was inadequate sales planning. This, it seems to me, was the more serious obstacle. The reviewer recalls that when sales planning was instituted on a national level a "pipeline of disposals" was developed so that the rate of disposals reached a maximum in mid-1946. Sales declined subsequently not because of the decentralization of sales planning to the regional offices but the inability of regional personnel—consisting chiefly of salesmen—to plan. Incidentally, one office appointed an economist to be in charge of sales and the results were excellent.

A third obstacle to prompt liquidation, the author states, was the multiplicity of Congressional objectives. As evidence, he cites an interview with officials of the Richmond regional office. This is a case of excuse rather than reason. This office had probably the worst inventory records of any. It did not sell property because it did not know what it had to sell.

Dr. Cook not only fails to recognize the importance of correct inventory records but makes contradictory statements about it. He states that "an examination of inventory procedures in regional offices has revealed that inventories have been maintained and used daily" (p. 137) and that "the War Assets Administration has adopted an inventory control system which, by and large, embodies sound working principles" (p. 138). On the other hand, Dr. Cook reports that "the overall inadequacy of property descriptions has contributed one of the most serious obstacles to efficient sales operations" (p. 141).

Another pair of contradictory statements reflects the conflict not only in the minds of the officials of the War Assets Administration, but also in the mind of Dr. Cook, with respect to the primary objective in the disposal of surplus property. On one hand, the author states that the priority system "tended to divert War Assets' selling staffs from their primary objective—prompt liquidation" (p. 66). Yet he says that "liquidation should be the means to an end rather than the end in itself" (p. 77).

This book, in the opinion of the reviewer, fails to bring out in sharp focus the *major* issues of surplus disposal. No penetrating analysis is offered, for example, of the role of the military in handling a civilian job (there is a passing reference on this point on page 127) or the importance of planning on a broad scale. Dr. Cook has made the serious mistake of relying for his information on Congressional hearings and reports, which reflect political partisanship on the part of Congress and include defenses of operations of W.A.A. A second source is W.A.A. statements on policies and procedures. On the basis of the reviewer's observations (and this opinion was prevalent) any relationship between such statements and *actual* policies and procedures was purely coincidental. A third source was interviews with W.A.A. officials. Here, too, there is room for skepticism as to the accuracy of information. Only careful, persistent, and intensive investigation can dig out the facts about any government activity on the scale of that under consideration.

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Public Utilities; Transportation; Communications

Electric Power and Government Policy. Factual findings by the Research Staff and the program by the Power Committee of the Twentieth Century Fund. (New York: Twentieth Century Fund. 1948. Pp. xx, 860. $5.00.)

This book is devoted largely to the report of a competent research staff headed by Arthur R. Burns, the director, and Walter E. Caine, associate director. The research staff, each member of which presumably handled particular sections, consisted of Walter H. Beidatsch, Blanche Bernstein, Melvin G. de Chazeau, Hubert F. Havlik, C. Emery Troxel, Patricia Van Deraa, and William Vickrey. The project was designed to give an objective, factual picture of the electric power industry in its relation to government agencies. A preliminary summary of the main findings written by Edward Eyre Hunt was published by the Fund in 1944 under the title of *The Power Industry and the Public Interest.*

The factual content of this book supplements the theoretical and legal approach of recent and excellent public utility books. Interesting and significant information overflows into voluminous footnotes. If the book were nothing more than a handbook of statistics, its value would be considerably diminished by the fact that the material brought down only to 1940 is now outdated. The value of the book, however, springs more from the strong flavor of regulatory experience that permeates the discussion of every controversial problem.

An attempt is made to analyze some ten regulatory problems. The material is presented with caution and qualifications that would befit a study sponsored by a committee including Professor Bonbright, a farm leader, a regulatory lawyer and three power company executives. (The committee: J. Henry Scattergood, chairman, James C. Bonbright, LaRue Brown, Samuel Ferguson, Murray D. Lincoln, and Paul A. Schoellkopf.) Although the conclusions might conceivably represent a common meeting ground of the minds of the staff, they are so cautious and well guarded that it can be doubted whether many of them represent the strong beliefs of even one of the staff members. In short, the qualifications become the essence of the findings and thus it becomes difficult to summarize the contents.

The discussion of the legal framework of regulation is possibly best summed up by the staff's hope that the Supreme Court will now be disposed to give greater weight to commissions' findings of fact. It is worthy to note that this book is not unduly devoted to exorcising "dat old Debbil," *Smyth v. Ames*. For this, readers should be profoundly grateful. The study recognizes the importance of earnings-price ratios as one measure of a fair rate of return. The virtual failure of all commissions until recently and the complete failure of academic writers to consider this approach is almost inexplicable. It is a significant commentary on the solidity of this book to point out that a suggestion that commissions establish normal or average standards of costs of service to which utility companies should be held is relegated to a footnote (p. 105).

Presumably the appraisal of local, state and federal regulation did not yield results which could be stated in categorical fashion. On the basis of statistical studies, the staff reported that state-regulated utilities earned larger profits but had better rate records and lower expenses than locally regulated utilities. The report seems to doubt the efficacy of municipal competition or the threat of competition (pp. 243-5), although tables in the appendix seem to indicate otherwise where there is actual competition.

Now that the attempt has been made, it is to be doubted if much can be gained from a statistical comparison of rates or profits in some states with commission regulation as against selected states with local regulation. What is to be proved by lumping together rate or profit figures for California, Connecticut, Massachusetts, Michigan, New Jersey, New York and Wisconsin to determine the results of commission regulation as compared with local regulation, measured by results obtained in Florida, Mississippi, Minnesota and Texas? The substance of regulation is lost in statistics. One can well ask as to what extent results were influenced by peculiar operating conditions or financial histories, by special qualities of management, by public ownership movements, or political conditions. The effectiveness of commissions ebbs and flows; high tide and low water may both be reached within a few years; generalizations must be suspect.

So many reasons for variations are suggested that the report itself concludes that definitive conclusions are impossible. It would seem to have been to better purpose if the writers had gone further into another approach which was tried on a small scale—that of comparing various pairs of states. If the reasons for all variations could have been traced back to their origin, readers might well have more confidence in the conclusions. Such a task, however, was obviously beyond the time resources of the staff. Apparently much of the valuable information in the report was obtained from grass roots sources—interviews with regulatory officials—including among others those of California, Massachusetts, New York and Wisconsin, states generally recognized as being leaders in regulation.

The section on the financial organization of private systems is almost a text in corporation finance in itself. The discussion of problems of security regulation is particularly illuminating since all too often such discussions are confined to the more or less lifeless enumeration of rules and principles. The policy of the Securities and Exchange Commission emerges as one that has continuously evolved as experience accumulated. The treatment does remain, however, a treatment of problems rather than a recommendation of policy. Some objective standards such as the degree of overcapitalization, the proportion of debt, dividend arrearages and security flotations are considered. Commission regulation of security issues seems to have had some slight effect in reducing write-ups and dividend arrearages. The staff report concludes that state regulation of security issues has not necessarily failed but rather has not been tried (p. 275). Here again earnings-price ratios or yields might have been used as a means of evaluation.

The discussion of the problem of market area size may be summarized

with the statement that the report notes that state commissions have exercised little control over territorial markets, while the policies of both Congress and the Securities and Exchange Commission over a wider front lack clarity and consistency as well as detail. The treatment is critical and descriptive, but there are no concrete recommendations of policy.

The study contains carefully qualified conclusions on municipal ownership presented against a thorough-going discussion of the many pitfalls encountered in making valid comparisons. It is pointed out (p. 435) that the major economies of municipal ownership arise from lower capital costs, more conservative valuation of assets and lower operating expenses. It is believed, with some evidence to the contrary, that tax advantages are offset by contributions to municipalities. These conclusions are based upon the many studies of the problem that have appeared in the past rather than upon new investigations. The report might have been strengthened by a thorough, objective analysis of the Ontario Hydro Commission, something that is sadly needed. The study of rural electrification may be summarized by the guarded conclusions of the report that "This survey has indicated little direct federal subsidy to rural cooperatives. . . . It may or may not be desirable to subsidize rural electrification, either for its own sake or, in times of depression, to contribute toward recovery" (p. 479).

The treatment of the subject of municipal ownership fails, along with every other treatment with which the writer is familiar, in that only after long study can even an expert reader evaluate the significance of isolated blocks of statistics treating various aspects of the problem. Why not utilize the device of hypothetical models of private and publicly owned utilities, incurring representative expenses with representative rates applied to similar rate groups? The specific effect of taxes, operating expenses, etc. could be traced down to their final incidence upon rates. The reader would be given quantitative answers to many of his questions without further research while partisans would have a definite starting point from which to begin their wrangling. The assumptions would of necessity have to be made with care but this staff should have the competence to make them.

The study affords us no definitive answer to the major question of public policy towards the giant multiple-purpose projects. The yardstick idea is firmly eschewed, the lack of consistent policy between the projects is decried, and Congress is called upon to lay down at least the major outlines of power policy. But we are left in the dark as to what they should be. It is taken for granted that indirect competition between private and public ownership should and will continue, but no direct attempt is made to grapple with the problems raised by the obviously cumulative growth of public ownership that we find today. The importance of the projects as a means of business cycle control is recognized.

The study concludes with a discussion of the objectives of a national power system, the power committee's report and recommendations and a statistical appendix. The committee's report is even more cautious than the main body of the report. Professor Bonbright, with hard-headed perversity, takes

frequent exception to the conclusions. In one instance dissents are registered by both Bonbright and Samuel Ferguson (in respect to divorcing gas and electric properties). Needless to say, they are not in agreement.

Although the book is notably free from excursions into the fields of high theory, the report and recommendations take notice of the arguments against taxing a decreasing cost industry. The efficacy of tax reductions in the light of ineffective regulation is questioned by Professor Bonbright (p. 746). Few can disagree with the stated objectives of (1) a workable system of regulation and (2) the proper coordination of government and private ownership (p. 748). We may be approaching the former, but the reviewer agrees with the report in that we get about the kind of regulation we deserve (p. 754). To achieve the second objective the report tentatively suggests a type of power organization similar to the British Grid and the Ontario Hydro. Much is to be said for the proposal although it is difficult to see how coordination is to be obtained as long as governmental ownership remains as such a dynamic institution. There is a plea that negotiational rate making be brought out into the public view (p. 759).

There are no unqualified answers to controversial questions. This is probably all to the good. Instead one finds some cautious recommendations and a thoroughgoing discussion of the qualifying factors. It is this wealth of minutia pertaining to the industry and to regulation that makes this book a valuable one to the student or to framers of policy. No one contemplating further research in the field would be justified in neglecting a preliminary reading of this book.

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The Regulation of Railroad Abandonments. By Charles R. Cherington. (Cambridge: Harvard Univ. Press. 1948. Pp. x, 277. $4.00.)

In undertaking this study, the author had in mind two objectives. The first was that of a detailed survey of the policies of the Interstate Commerce Commission in respect to the problem of railroad abandonment, over which the Commission was given control in 1920. The second was the development from this experience of any general conclusions which it might offer in respect to techniques of administrative regulation.

Two sections of the book contain excellent discussions of complicated problems dealing respectively, with judicial review and with actual Commission policy in sanctioning or denying abandonments. Of equal quality but of lesser importance are the discussions of the legislative background of the abandonment clause and Commission procedure in handling the cases.

The critique of the Commission policies, and the treatment of the implications which the Commission action offers for administrative regulation in general are much less satisfactory than the descriptive material. The ultimate conclusion—that a Bureau of Coordination and Research should be established within the Commission (and similar bureaus in other regulatory agencies) for purposes of long-range planning and evaluation of the effects

of particular Commission actions in terms of the plans developed—is one with which there can be substantial agreement. And, in a sense, the failure of the Commission to enunciate a clear policy in respect to abandonment may be advanced as justification for such an agency. But I am not at all sure that the actual decisions of the Commission would have been very different had long-range considerations been taken into account, as the author maintains. Professor Cherington is very critical of the particularist approach of the Commission—that is, of the tendency to deal with each case as a separate problem, with an attempt to balance conflicting considerations involved in the particular case—and condemns the Commission for failing to adopt a "planned coherent regulatory strategy." He is likewise critical of the Commission for being unnecessarily restrictive in preventing abandonments which the carriers would like to make. But his criticism of the Commission on these bases is greatly weakened by the failure to advance, or even to indicate by implication, what "planned strategy" would involve, or what general principle the Commission should have followed in regard to abandonment.

The establishment and utilization of such a principle is not an easy task. The old view, one still accepted by many, that any line on which costs are not covered (granted a reasonable basis for allocating costs and revenue to a particular line) should be abandoned has been seriously questioned by the marginal approach to utility operation and pricing. There may be, and probably are, cases in which the losses to the shippers from abandonment will exceed the losses on the line from continued operation; retention of the lines is justified and practicable (under what amounts to a type of recapture policy) in cases in which the road as a whole is earning more than a necessary return. And essentially—without stating the principle in so many words—the Commission has been attempting to weigh these conflicting considerations of carrier and shipper losses. It is doubtful if a more precise statement of principle would be of much assistance; there is no possibility of calculating exactly the loss to the community from abandonment, or, for that matter, the exact loss from operation of the particular branch. The best that can be hoped for is a rough weighing of the two considerations. The fact that a railroad can never be sure in advance whether the Commission will allow a particular abandonment is an inevitable product of the difficult nature of the problem, rather than a product of the Commission's past policy, as the author argues. In general, Professor Cherington has not established a strong case that Commission policies in abandonment cases demonstrate a fundamental weakness in the structure and operation of the Commission.

The section dealing with the causes of abandonment is not entirely adequate. The author's listing of the causes of traffic declines is an improvement over previous attempts, but stops short of a fundamental problem, the answer to which is not always entirely obvious: exactly why, and under what conditions will a traffic decline cause losses and result in abandonment? Further attention is needed to the question of the carriers' own policies in

regard to seeking abandonment. One legal question which might have been raised is that of the relative powers of the Commission and the federal courts in the case of abandonment of bankrupt lines, an issue which arose in the *Salt Lake and Utah* case and is likely to arise in the future in others.

This book represents a worthwhile contribution to the field of study of administrative regulation, one whose usefulness is enhanced by the excellent style of writing. But it is by no means a complete study of the railroad abandonment problem, from the standpoint of economic welfare considerations involved. It should be pointed out that the author's primary interest is in the field of political science, not economics. But there remains the fact that the author has undertaken to criticize the Commission's policies upon the basis of economic criteria without making clear what the latter are.

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Land Economics; Agricultural Economics; Economic Geography

Road to Survival. By WILLIAM VOGT. (New York: William Sloane Associates. 1948. Pp. xvi, 335. $4.00.)

Our Plundered Planet. By FAIRFIELD OSBORN. (Boston: Little Brown. 1948. Pp. xiv, 217. $2.50.)

These two books bring vividly to the attention of hundreds of thousands of readers significant trends and problems regarding the nation's and world's natural resources. The books come on a wave of public interest in conservation and rebuilding of our diminishing resources. In part they have made the wave. Each has been selected by a popular book club.

The tremendously accelerated wartime drain on world resources followed by the dramatic presentation of the economic reconstruction needs of the western European democracies and our own role in providing aid have sharpened our awareness of the resources problem. Man's ultimate dependence on his environment of soil, water, and plant and animal life for his daily living and future well-being is clearly depicted by both Osborn and Vogt. Not since the heyday of Theodore Roosevelt and Gifford Pinchot have these issues been so much in the public eye. Frequently these two books have been referred to as "scare" books. What they point out should not scare us. Rather it should sting us into more vigorous conservation efforts. The authors have performed a public service in focusing public attention on the need for conservation.

Neither Vogt nor Osborn is primarily an economist or, indeed a social scientist of any kind. A prominent ornithologist, Mr. Vogt is now chief of the Conservation Section of the Pan-American Union in which position he has had broad experience in studying population and resources problems in various Latin American countries. Mr. Osborn is president of the New York Zoological Society. Of the two books, Osborn's is the smoother, more balanced, and less likely to arouse violent emotional reactions for or against. Vogt's book is uneven, written at white heat, and full of fight. It contains

sweeping scientific, cultural, ethical, and economic generalizations and predictions, sometimes without satisfactory backing. Fortified with great quantities of notes, observations, and impressions, Vogt has lunged into his subject matter with both arms swinging. An economist or scientist could easily be unfair in appraising this book.

The main propositions of each book are similar. Following Vogt's more extreme presentation, the whole business may be summed up in the equation $c = b: e$. The carrying capacity (c) of a piece of land (or a nation or the world) at any time varies directly with its biotic potential (b) and indirectly with the environmental resistance (e). An improvement in land use such as better crop rotation or the application of needed fertilizer may increase crop yield and hence the biotic potential and carrying capacity. Soil erosion or leaching will increase environmental resistance, reduce the biotic potential, and thus lower carrying capacity. The elements in this relationship change, but for the impending future, Vogt argues, we may expect e to increase, b to decrease, and c to go down and down. Coupled with this, Vogt sees a century and more of increasing population in most countries. The rising population curve will cross the falling carrying capacity curve, leaving mankind to gloom and misery everywhere.

The situation may, however, be rescued by strenuous, intelligent, world-wide action on two fronts. We must conserve and build up our soil and we must stop having so many babies. Both Vogt and Osborn agree upon the need for resources conservation and development. Vogt goes far beyond Osborn in calling for a reduction in population. Vogt would withhold United States aid to Greece and China until those countries take actions to check births. In his opinion, one hundred million Americans would be about right; that is, would be the optimum population for a sustainable ecological balance in nature. One observer interpreted Vogt as saying, "Forty-five million Americans, drop dead!"

The form of the two books is similar. First is a series of chapters developing the background and stating the main propositions. Following are chapters dealing with the resources trends and critical problems in the different continents and countries. The promising as well as the inadequate efforts toward conservation are discussed.

Since the appearance of these books, scientists of many stripes have stepped forth to condemn them. Many soil scientists say that the term "natural balance" is meaningless apart from man's own cultural achievements in soil science, engineering, and economics. They maintain man's efficiency in food production and distribution is probably still accelerating. Enough tillable but at present unused land remains in the tropics and other areas to produce food for an adequate diet, as determined by the United Nations Food and Agriculture Organization, for the whole world by 1960. In addition, the biotic potential of various types of soil may increase greatly as knowledge and practice improve.

Population experts point to the fact that in the more advanced industrial areas net reproduction rates have decreased, in many instances below the

rate required for replacement. Motivations and techniques for limiting the size of families may be expected to become increasingly important. Men do not obey rigid laws of increase like so many fruit flies. World population may increase for another century or so, and then hold steady or even decrease.

Of the two authors, Vogt especially has little use for economists, unless they are Physiocrats. "Purchasing power goes back fundamentally to natural resources—especially the land—and no amount of symbolical juggling can help us to escape that hard fact" (p. 78). For Vogt the source of wealth is land, especially wheat land. Industrialization, notwithstanding the remarkable increase in *per capita* real income that has come in its wake, is presented as a "fallacy."

In another purple passage Vogt writes: "One of the chief causes of our ecological imbalance is our economic thinking. We identify the symbolic dollar with real wealth. . . . We extract oil, iron ore, and fine timber, and canvasbacks, and call it production . . ." (p. 146). He then calls for subordination of the "money evaluation of the exploitative lumberman, farmer, stockman, trapper, and industrialist . . . to a biophysical evaluation." At other points in the book, the free enterprise and profit system is condemned in harshest terms. Economic thinking is presented as the narrowest kind of "quick profits and the devil take the hindmost" doctrine.

Osborn is more temperate. Having in mind the continuing attack of the cattle and sheep interests on the federal forests, parks, and grazing lands in the West, he concludes ". . . the profit motive, if carried to the extreme, has one certain result—the ultimate death of the land" (p. 183). Osborn, however, does not make any blanket condemnation of the free enterprise system.

The important element of truth in Vogt's diatribe is that more economists should take the long view, giving greater weight to future consequences of present actions. The need for living with nature both now and in future generations should enter the value scales of the economist as well as of the farmer, stockman, fisherman, and industrialist. There is, of course, nothing in economic theory to exclude such considerations. Economic theory as such does not require that the future be discounted at any specified rate. That other scientists, and possibly the general public as well, do not realize this points to a shortcoming of the economics profession in the matter of public information which cannot be dodged.

It must be admitted also that there is need for a further working of general economic theory to cover more adequately the field of resources conservation and development. What seems to be required is not a new structure but rather an extension and adaptation of the present structure to give the additional material more relevance. Production theory as taught in most economics courses, for instance, is focused on the business firm, usually a manufacturing firm, which purchases materials and hires labor in order to turn out a product. Economists should give more attention to the national production which would result from better land and water use and sustained yield forestry. Such programs also require an economizing of scarce re-

sources, but in terms of social as well as firm and individual considerations.

Perhaps one reason why conservation policies sometimes appear confused and contradictory and do not have effective public support is the failure so far to relate conservation economics broadly to economic theory. More than this, minerals conservation, land conservation, and water conservation are not related to one another closely enough. The division is especially sharp between the conservation of exhaustible and inexhaustible resources. Perhaps the greatest contribution the economist can now make is to bring these different subjects in out of the rain and put them securely under the one tent of economic theory.

It cannot be denied that these two books do point to fundamental dangers and needs frequently neglected or underestimated. The need for better conservation of natural resources is so widespread and so urgent that an appeal to emotion is desirable. Otherwise, we may be both too little and too late with strong actions for the protection and improvement of our resources base. Professional economists should keep this in mind when they present their criticisms of the case made by such writers as Osborn and Vogt.

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Introduction to Agricultural Prices. By WARREN C. WAITE and HARRY C. TRELOGAN. (Minneapolis: Burgess Publishing Co. 1948. Pp. iii, 227. $4.00.)

This text is primarily concerned with price variations that are important for entrepreneurial decisions in agricultural production and marketing. It is organized by economic concepts rather than by commodities (but 20 index entries can be found under "wheat"). However, the authors undertake no rigorous logical development of theory. Rather, they assemble a selection of practical analytical tools and show the student how to use them for understanding and dealing with marketing problems.

After a review of the nature of money and prices, the book discusses demand, supply, and competitive and monopolistic price determination. There follows an extensive treatment of market organization and structure and price-making processes, of transfer costs and other locational influences, of seasonal variation, and of quality variation. A substantial chapter is included on futures trading, and one on prices of the factors of agricultural production.

Some main statistical techniques are brought together in a later chapter of the book and in appendices. Here, again, a kit of tools is assembled with practical instruction in their use rather than a rigorous mathematical development.

Two things in the book deserve special commendation. One is the extensive use of tabular and graphic materials from actual research studies. Scarcely a page lacks illustration of this type, much of it reflecting considerable work by the authors in adapting materials to the textual analysis. The student

receives both a wide sampling of available source materials and a practical experience in their interpretation and use.

Second is the emphasis upon evaluation rather than mere description. The book concludes with a chapter appraising our wartime experience with price control and another analyzing farm price-support programs, past and proposed. But throughout the book, whether discussing cyclical changes, monopolistic practices, cooperatives, government marketing programs, or futures trading, the authors call the student's attention to consequences for different groups in society, and to over-all social implications. They take time to refute the doctrine that changes in farm income produce seven-fold changes in national income. They risk a reasoned forecast of a short-run downward adjustment of agricultural prices relative to nonagricultural, followed by a secular decline—or at best a stable relationship—over the next quarter century. Regardless of whether one agrees with the author's opinions, this reviewer believes that it is good for students to have issues important for policy brought out for class discussion.

The book fills an important need in the current shortage of analytical, as versus merely descriptive, texts on agricultural marketing. There is merit in its practical approach. The limitations of that approach might be partly offset by adding references to sources of more rigorous development of the analytical concepts used, both economic and statistical.

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Labor

Contemporary Unionism in the United States. By CLYDE E. DANKERT. (New York: Prentice-Hall. 1948. Pp. xv, 521. $5.00.)

The above volume is a useful handbook on labor unions. In twenty-seven chapters, the author has discussed every aspect of unionism from its history to its effect on the general welfare. Most of the time his material is limited to describing known facts. Occasionally his observations are not too meaningful. For example, in a footnote we are told that since workers in the Soviet Union supply all capital, they do "not have to worry about their 'share' since presumably, everything goes to them anyway." Do they or do they not have to worry, and why? Does everything go to them, and what is everything? He then draws the conclusion that trade unions of the type to which we are accustomed are not needed. This, of course, means that there are no problems of income allocation in the Soviet Union, and that there are not even any bases for complaints. Actually, capital in the Soviet Union is supplied by the community by not consuming its total income in a period. Has the worker no interest in deciding on the amounts to be consumed and saved? If reports from the Soviet Union can be believed, the Russians need unions like our own very badly. If our type of unions existed, there might be a few more consumption goods available. All the author has really said is that a totalitarian regime has no place for free unions.

The discussion of "voluntarism" leaves out the influence of government policy upon this attitude. Between the 1880's and the early 1930's, government intervention would have meant mostly stronger government action against labor. Nor is the A. F. of L.'s change of view on this point dealt with adequately. This discussion illustrates a serious defect in this volume, the failure to pursue a topic adequately. While it is true the "Federation realizes now that gains that are extremely valuable to labor may be achieved not only through collective bargaining but also by legislation," we ought to be given some explanation for the change in attitude. What is "a rigid adherence to the Gompers philosophy of voluntarism" in politics? Actually, there is slight difference except as to scale of activity between Gompers' and the present policy.

In discussing the government of the A. F. of L., Professor Dankert agrees that "unity in the executive council is not as real today as it was under the regime of Gompers." This may be true, but it may be well to point out also that the A. F. of L. is more united today than it was in Gompers' day. No appreciable socialist faction exists today, as it did from the beginning of the A. F. of L. to the 1920's. The discussion of the attitude of the A. F. of L. toward joining the World Federation of Trade Unions leaves much to be desired, and the impression is given that the objection is primarily based upon the A. F. of L.'s espousal of "free enterprise." But the A. F. of L. has more substantial objections. English unions are also opposed to "free enterprise," and the A. F. of L. maintains cordial relations with them. English unions can, however, adopt any policy they choose, whether it be favored or opposed by the government. The Russians cannot. Why meet with the Russian unions, they cannot act independently.

This volume has many merits, and it is a usable text in courses on trade unionism. Its greatest shortcoming is the failure to carry through in discussion of issues. Many times the points are given for and against a particular view, but the question is not examined beyond the point of stating the issues. It is frequently more desirable to err, especially if the error is suggestive, than to allow a question to remain "up in the air." Consequently, a teacher will have to be ever watchful to supplement the material. Labor problems of various kinds can be illuminated by different types of analysis, but some explanation beyond stating that groups prefer different alternatives is essential if a volume is to be more than a mere handbook.

PHILIP TAFT

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Industry-wide Bargaining. By LEO WOLMAN. (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education. 1948. Pp. 63.)

In this pamphlet a member of the National Bureau of Economic Research undertakes to prove that industry-wide bargaining is dangerous. Though the best examples of such bargaining are in coal mining and on the railroads, he is sound in adding industries like steel and automobiles where the contracts are fairly uniform. Regional examples are also given.

The indictment is based on the premises that national unions generally have strong centralized power over both locals and individual members (pp. 18, 52), that national unions are essentially monopolistic (p. 25 ff.), and that their specific goal is uniformity (p. 9) that will remove labor conditions from the field of competition (p. 21). From these premises the author concludes that agreements reached in industry-wide bargaining do stop such competition both within an industry and among industries (p. 22) and even "will amount in time to taking business out of competition" (p. 33).

To this, he adds criticisms of the increased costs (railroads and coal, pp. 36-38), of the general inflexibility of labor costs so that management cannot adjust to changing conditions (p. 38), and of the practice of employers' associations joining with unions "in fixing costs and prices" (p. 42).

Nowhere is there a suggestion of possible advantages from industry-wide bargaining. The balance of the pamphlet cites examples of the above arguments, some distorted labor history, apologies that have been made for union "monopoly," and of course a remedy. This remedy is mainly to apply the antitrust laws rigidly to labor organizations (p. 62), though strengthening of independent ("company") unions is expected to help (pp. 47-48, 61).

In such a study one may separately examine both premises and reasoning, and also extraneous arguments. It may, for instance, be questioned whether national unions *generally* have the power imputed to them. On the other hand, there seems nothing to gain in quibbling over an exact definition of "monopoly" as applied to labor organizations (unless it is used for derogatory effect), though we may ask whether labor monopolies actually "overshadow any private business monopolies" (p. 33).

That industry-wide bargaining does largely remove labor conditions from competition within an industry may be granted. But only where a single union is powerful in related industries is it effective between industries. For the immediate future it appears unlikely that even within either of the great federations there will be enough collusion among unions to achieve this end. No evidence is offered that business will be taken out of competition (even regionally), so one can merely accept or disagree with the statement, not with the absent reasoning.

The added criticisms are also questionable. Has it been only, or even mainly, the labor costs of railroads and coal mining that have caused branch lines to cease operating and coal consumers to switch to other fuels? Accepting a relationship, other items may also be admitted. Though on page 54 the author states that "no satisfactory evidence is at hand" to show that restriction of output is limited to craft unions, he himself adduces none to show that the union rules with "the most costly effects" are these restrictions. Nor is there evidence for his statement on the opposite page that before 1935 unorganized employees prevented these restrictions from being effective. (Surely Mathewson's *Restriction of Output Among Unorganized Workers* has shown the contrary.)

The inflexibility (except upward) of labor costs does indeed merit serious consideration. If the economy cannot or will not be stabilized, management needs to be able to make an adjustment in costs. But it has yet to be shown

why the burden of this adjustment should be placed mainly on labor. The estimate (p. 31) that wages and salaries amount to almost 80 per cent of the national income does not seem born out by government statistics, nor does it seem relevant to the problems of a firm that can adjust only its own labor costs, not those included in the prices it pays for raw materials and capital goods.

No doubt there are many undiscovered and unprosecuted cases of employers (and employers' associations) fixing prices in collusion with unions; no doubt the possibility is ever present. But that it is yet a common practice is dubious.

History is most useful when it is not distorted. In consideration of the way company unions flocked to join the AFL unions prior to 1935 when the NLRB started aiding the latter, should one agree that company unions were a real barrier to other unions (pp. 47-48)? Is it wholly correct to state that since 1914 unions have been immune to the antitrust laws (p. 62)? Should we also agree that the antitrust laws have so far prevented monopolies other than labor (as the author implies on the same page)?

Perhaps the pot has no right to call the kettle black. Perhaps it is irrelevant that business policies in large firms are no more decided democratically by stockholders than union policies are by union members—usually less. Yet a recognition of this source of difficulties in labor relations might help the reader. Unions feel they must be large to take on large employers; then they are too large for small employers. To be fair to both sides, since an effective prohibition of industry-wide bargaining can be achieved only by reducing the size of unions, the employers too must be curtailed. Are we willing to do so?

And is the uniformity of working conditions so intolerable an evil? Classical economics would seem to allow standardization in a stable economy. Under changing conditions such forced standardization would hasten the natural tendency and more quickly slough off sub-marginal producers. Has the growth of uniformly improved conditions unstabilized the coal industry compared with the 'twenties and early 'thirties? Is organized labor more restrictive than the vested interests of business? Do unions affect prices more than the imperfections of competition under oligopoly? In so one-sided a discussion as Wolman's, we are not likely to find an answer.

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Wages. By Maurice Dobb. (London: Nisbet & Co., Ltd. New ed. 1946. Pp. ix, 222. 6 *s*.)

In this revision, the central chapters on "Theories of Wages" and "Wages and Bargaining-Power" have been altered considerably and the other chapters have been brought up to date.

The book is well written, the treatment is balanced, and the conclusions are sensible. The discussion of methods of wage payment is especially clear and acute.

The author's position with respect to wage theory may be characterized as a healthy scepticism of traditional theories without too much to offer in

their place. As a realist, he repeatedly points out that relationships between wages and other economic variables are much more complex than was formerly supposed. Influenced by Keynesian developments, doubts are expressed concerning "the simple notion of some kind of elastic demand-schedule for labour." With respect to wage differentials between occupations, Mr. Dobb finds that actual differences are so much in conflict with the principle of "equality of net advantages" as "to incline one to think that it cannot be an explanation at all of the major differences of wages in our present wage-system."

A "handbook" cannot be criticized for failing to be a learned and complete treatise. This book does accomplish the purposes of the author. Its most noticeable weaknesses are in areas that have received considerable attention in this country during the postwar period, namely, geographical differentials, the influence of unions on wages, the issue of "labor monopoly," the economics of minimum wages, and the question of a "national wages policy." The issue of "labor monopoly," for example, is not even considered although employer monopoly is, and no systematic treatment is given to the influence of unions on wage structures and wage levels or the economic justification for minimum wage legislation.

An adequate theory of wages must stem from an understanding of wage and employment practices in the absence of unions. An analysis of non-union conditions must provide the sound economic support for labor-standards legislation. Mr. Dobb fails to contribute to such understanding and support when he refers repeatedly to "the labour market" (without indicating what kind of a "market" he conceives it to be), and to "the 'normal' competitive wage." Studies of employment practices and wage structures and policies under non-union conditions show such notions to be misleading and unrealistic. The notion of an existing "competitive wage" is certainly chimerical, yet some American economists still seek to define labor monopoly in terms of a "competitive level of wages" and to classify individual wage rates or wage increases as either "competitive" or "monopolistic." Why let facts spoil a beautiful theory?

In the last chapter, the question of "some sort of centrally co-ordinated wage-policy, worked out between the Government and the trade unions at a high level" is discussed briefly but without shedding any new light on the matter. It is to be hoped that experience then available, will permit the author to expand on this subject in the next revision. The extent to which the spread of collective bargaining and the political compulsions in national unions will give our economy an inflationary bias during the next decades is a problem that needs careful analysis. Any solutions that England can develop to the conflict between national policy-making or planning and free trade unionism with autonomous unions should be helpful to us in working through the wage-price difficulties that exist under free collective bargaining in a full employment economy.

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NOTES

NOMINATION OF OFFICERS

The nomination of officers of the American Economic Association for the year 1950 having been completed by the electoral body, the Executive Committee decided that the names of nominees should be made public at once, instead of being kept secret until the ballots were distributed, as heretofore.

The nominations were as follows:

For President: Frank H. Knight

For Vice Presidents: Edward S. Mason, Clair Wilcox, Edwin E. Witte, Aryness Joy Wickens.

For Executive Committee: Vincent W. Bladen, Lester V. Chandler, Robert A. Gordon, William J. Nicholls.

Two vice presidents and two members of the Executive Committee will be chosen by ballot.

OFFICERS OF ALLIED SOCIAL SCIENCE ASSOCIATIONS

The Allied Social Science Associations are being served by the following officers during the present year:

American Accounting Association: R. L. Dixon, University of Michigan, Ann Arbor, Michigan, president; Clete Chizek, University of Chicago, Chicago 37, Illinois, secretary-treasurer.

American Association of University Teachers in Insurance: J. Anderson Fitzgerald, College of Business Administration, University of Texas, Austin, Texas, president; J. Edward Hedges, School of Business, Indiana University, Bloomington, Indiana, secretary-treasurer.

American Farm Economic Association: Oris V. Wells, Bureau of Agricultural Economics, Washington 25, D.C., president; L. H. Simerl, 305 Mumford Hall, University of Illinois, Urbana, Illinois, secretary-treasurer.

American Finance Association: Neil H. Jacoby, University of California, Los Angeles, California, president; Edward E. Edwards, Indiana University, School of Business, Bloomington, Indiana, secretary-treasurer.

American Marketing Association: Harvey W. Huegy, University of Illinois, Urbana, Illinois, president; George H. Brown, University of Chicago, Chicago 37, Illinois, secretary.

American Sociological Society; Talcott Parsons, Harvard University, Cambridge, Massachusetts, president; Irene B. Taeuber, University of Maryland, College Park, Maryland, secretary-treasurer.

American Statistical Association; Simon Kuznets, 7301 Mountain Ave., Melrose Park, Philadelphia, Pennsylvania, president; Merrill M. Flood, 1603 K St., N.W., Washington 6, D.C., secretary-treasurer.

Econometric Society: Ragnar Frisch, University of Norway, Oslo, Norway, president; William B. Simpson, University of Chicago, Chicago 37, Illinois, secretary.

Industrial Relations Research Association: Sumner H. Slichter, 229 Littauer Center, Harvard University, Cambridge 38, Massachusetts, president; William H. McPherson, Institute of Labor and Industrial Relations, University of Illinois, Champaign, Illinois, secretary-treasurer.

Institute of Mathematical Statistics: J. Neyman, University of California, president; Paul S. Dwyer, University of Michigan, Ann Arbor, Michigan, secretary-treasurer.

RESEARCH IN ECONOMIC HISTORY

The Committee on Research in Economic History sponsored by the Social Science Research Council, has found an opportunity for the extension of work in its chosen field of the relation of government to American economic development in the explorations being conducted by Professor Carter Goodrich of Columbia University with collaboration from a group of graduate students at that institution. To assist Professor Goodrich in the stimulation of these studies, the Committee has made a grant to him which will permit him to aid financially the young men who are making their investigations under his general direction. The graduate students whom he has selected for inclusion within his group are Carter H. Golembe, Benjamin J. Klebaner, Nathan Miller, and Harvey H. Segal. These men will be designated Resident Fellows in American Economic History at Columbia. Mr. H. Jerome Cranmer of this same group has been given a grant-in-aid.

The Committee has also expressed approval of the efforts being made in an exploration of the area of entrepreneurial history, which has been going forward in 1948-49 at Harvard. To aid this Research Center in Entrepreneurial History, it has voted financial aid for 1949-50 to four young men associated with it: Hugh G. J. Aitken, David S. Landes, Harold C. Passer, and R. Richard Wohl. These men have also been designated Resident Fellows in Economic History.

The Committee has concluded its examination of applications for its National Fellowships in Economic History for the year 1949-50. The following men have been selected: Whitney K. Bates of the University of Wisconsin, Ping-ti Ho of the University of British Columbia (a candidate for the doctor's degree at Columbia University), Douglass C. North of the University of California at Berkeley, Jelle C. Riemersma of the same institution (reappointed now for a second year), Arthur J. R. Smith of Harvard, and Lloyd Ulman of the same institution.

Other grants have been made to Mr. Robert B. Johnson of Virginia Union University, Professors M. A. Adelman and Robert K. Lamb of the Massachusetts Institute of Technology, and Mr. John T. O'Neil of the University of North Carolina.

The chairman of the Committee is Professor Arthur H. Cole, Box 37, Cambridge 38, Massachusetts.

NEW PUBLICATIONS

A series of Bulletins on Soviet Economic Development, edited by Professor Alexander Baykov, is to be published by the Department of Economics and Institutions of the U.S.S.R., University of Birmingham, England. The first series will consist of four Bulletins, to be published during 1949, devoted to the development respectively of: industry, agriculture, finance, internal trade and foreign trade. The Bulletins will be available only to those who subscribe for a series. Subscription for the first series of four Bulletins: £1:0:0 (post-free to any part of the world). Payments should be written to the Department as named above.

A quarterly bulletin, *Current Economic Comment,* which should be of interest to many members of the Association, is being issued by the Bureau of Economic and Business Research at the University of Illinois.

Necrology

Frank A. Fetter, March 21, 1949. A memoir will be published in the September number of this *Review*.

Paul Haensel, February 28, 1949.

Albert H. Mowbray, January 7, 1949.

Kenneth T. Setre, January 23, 1949.

Edward Carroll Sibley, January 6, 1949.

Appointments and Resignations

Clark L. Allen has resigned as associate professor of economics at Duke University to become chairman of the department of economics of Florida State University.

V. Lewis Bassie has been appointed professor of economics and director of the Bureau of Economic and Business Research at the University of Illinois.

A. V. Berger-Voesendorf, formerly of Farouk University, Alexandria, Egypt, is now at Gonzaga University.

Max Bloch has taken a position in the Social Security department of the United Automobile Workers, CIO.

Ed. J. Boling is instructor in statistics, College of Business Administration, University of Tennessee.

Kenneth E. Boulding has been appointed professor of economics at the University of Michigan, effective in the fall term.

Mary Jean Bowman was lecturer in economics during the spring semester at the University of California, Berkeley.

Dorothy S. Brady was appointed professor of economics at the University of Illinois in September, 1948.

Leslie J. Buchan, of Tulane University, has been appointed dean of the School of Business and Public Administration, Washington University.

J. M. Buchanan is associate professor of economics in the College of Business Administration, University of Tennessee.

Reynold Carlson, of Vanderbilt University, will be with the United Nations staff, Santiago, Chile, this summer, as economic consultant.

Paul S. Carter is instructor in accounting in the College of Business Administration, University of Tennessee.

Clyde J. Crobaugh, formerly of Fenn College, is professor of finance in the College of Business Administration, University of Tennessee.

Howard A. Cutler is instructor in economics at the University of Illinois.

Anthony Dawson was acting lecturer in economics at the University of Washington in the spring quarter.

John F. Due has been appointed associate professor of economics at the University of Illinois.

George Filipetti, of the University of Minnesota, has been appointed by the National Management Council of the United States delegate in education to the ninth International Management Congress to be held in Brussels.

Richard W. Fisher has joined the staff of the University of Kansas as instructor in accounting.

James B. Foxworth will join the staff of the department of economics and commerce of the University of Chattanooga as instructor this summer.

Donald A. Gardiner, formerly of the University of Buffalo, is assistant professor of statistics, College of Business Administration, University of Tennessee.

Gilbert L. Gifford, formerly of the University of Washington, is associate professor of transportation, College of Business Administration, University of Tennessee.

Marion H. Gillim, on leave of absence from Mount Holyoke College, is with the Office on Foreign Labor Conditions of the Department of Labor.

Eli Ginzberg, on leave of absence from Columbia University, is serving as director of the New York State Hospital Study.

Everett E. Hagen is professor of economics at the University of Illinois.

James K. Hall, of the University of Washington, has been granted sabbatical leave for the academic year 1949-50 to engage in economic research.

Jean C. Halterman has been appointed instructor in business organization and management in the College of Business Administration, University of Nebraska.

Clifford M. Hardin, professor of economics at Michigan State College, has been appointed director of the college's agricultural experiment station.

Einar Hardin has joined the faculty of the University of Minnesota as instructor in economics.

Victor C. Heck, of Vanderbilt University, has accepted an appointment as professor of economics and chairman of the department of economics and business administration, Mercer University.

Vern G. Hefte, formerly of the University of Iowa, is assistant professor of accounting in the College of Business Administration, University of Tennessee.

Oris C. Herfindahl was appointed instructor in economics at the University of Illinois in September, 1948.

Hans Heymann is lecturer in economics at the University of Illinois.

Abraham Hirsch, formerly of the National Bureau of Economic Research, is now assistant professor of economics at the College of William and Mary.

Malcolm W. Hogg was appointed assistant professor of economics at the University of Illinois in September, 1948.

Harriet D. Hudson was appointed assistant professor of economics at the University of Illinois in September, 1948.

Leonid Hurwicz has returned to his position at Iowa State College after a year's service with the Economic Commission for Europe of the United Nations.

A. L. V. Ingram has been appointed assistant professor of economics at Wofford College, South Carolina.

Allen H. Keally, formerly of the University of Pennsylvania, is associate professor of industrial management, College of Business Administration, University of Tennessee.

Charles C. Killingsworth has been promoted to professor and head of the department of economics at Michigan State College.

E. A. Kincaid has resigned as economist and vice president of the Federal Reserve Bank of Richmond and will devote full time to his work as professor of economics at the University of Virginia.

Carl Kreider, of Goshen College, has been appointed director of the Workshop in Higher Education to be held at the University of Minnesota this summer.

Clarence E. Kuhlman, formerly of the University of Mississippi, is associate professor of transportation, College of Business Administration, University of Tennessee.

Dorothy Lampen has been promoted to the rank of associate professor of economics at Hunter College.

John Lindberg, formerly of the Institute for Advanced Studies at Princeton, served as visiting associate professor of economics at Swarthmore College during the academic year 1948-49.

John Lobb has been named chairman of the department of economics and sociology of Mount Holyoke College.

Donald Love has ben appointed part-time instructor in economics at Lafayette College.

Arthur W. Marget is director of the Finance Division, Office of the Special Representative, Economic Cooperation Administration, in Paris. He was incorrectly reported special financial adviser, U. S. Embassy, Paris in the December number of this journal.

Raymond H. McEvoy was appointed assistant professor of economics at the University of Illinois in September, 1948.

Leon Megginson has been appointed instructor in management, Louisiana State University.

Charlotte F. Muller was lecturer in economics in the spring semester at the University of California, Berkeley.

Edward G. Nelson has ben promoted from associate professor to professor of economics at the University of Kansas.

William H. Nicholls, of Vanderbilt University, will teach during the summer session at the Salzburg, Austria, Seminar in American Studies, sponsored by the Harvard Student Council and the World Student Service Fund.

Ralph P. Norton has resigned as instructor in labor and industrial relations, University of Illinois, to edit the Vermillion County Star newspaper in Danville, Illinois.

Louis W. Nuesse is associate professor of industrial management in the College of Business Administration, University of Tennessee.

John E. Orchard, of the School of Business, Columbia University, has joined the staff of the Economic Cooperation Administration, Paris.

Morton Paglin has been appointed instructor in economics in the College of Commerce, Louisiana State University.

Don Patinkin, formerly associate professor of economics at the University of Illinois, is now lecturer in economics at the Hebrew University in Jerusalem.

Gardner Patterson has been appointed to the directorship of the International Finance Section of the department of economics and social institutions at Princeton University.

Frank C. Pierson is on leave of absence from Swarthmore College to direct research in labor economics at the University of California at Los Angeles.

Charles L. Quittmeyer has resigned from the Connecticut General Life Insurance Co. to become assistant professor of economics and business administration, College of William and Mary.

E. G. Rasmussen, who has been on a General Education Board fellowship at the Harvard School of Business Administration, will resume his work at Vanderbilt University beginning with the summer quarter.

Margaret G. Reid was appointed professor of economics at the University of Illinois in September, 1948.

Ronald Reifler has been appointed instructor in the economics department of Claremont Men's College.

Raymond J. Saulnier has been promoted to the rank of professor of economics at Barnard College.

Willard J. Saunders has been appointed assistant professor of business administration at San Jose State College.

Wilson E. Schmidt has ben appointed instructor in economics at the University of Virginia.

Ned H. Scott has been appointed instructor in accounting at the University of Florida.

Edith G. Severo will act as substitute for Mrs. Janet Sundelson, who has been granted leave of absence from Barnard College for the academic year 1949-50.

Everett R. Shaw is assistant professor of economics at Arizona State College.

Joseph Shister, of Yale University, has been appointed associate professor of industrial relations in the school of Business Administration, University of Buffalo.

Carl S. Shoup, of the School of Business, Columbia University, is directing a study of the Japanese tax system for the United States Army in Japan.

Lewis B. Sims, who was detailed to the Hoover Commission from his position as assistant chief of the Governments Division of the Census Bureau, has now transferred to the Public Health Service.

Edward L. Smith has been promoted to the rank of associate professor of economics at Hunter College.

Douglas B. Smith was appointed instructor in economics at the University of Illinois in September, 1948.

Dallas W. Smythe was appointed professor of economics in the Institute of Communications Research, University of Illinois, in September, 1948.

Thorn K. Snyder has been appointed instructor in economics at Purdue University.

Frank A. Southard, Jr., has resigned as associate director of the Division of Research and Statistics of the Board of Governors of the Federal Reserve System to accept the position of United States executive director of the International Monetary Fund.

Edwin H. Spengler has been promoted from associate professor to professor in economics at Brooklyn College.

David K. Spiegel has been promoted from instructor to assistant professor of economics at Pratt Institute.

Ross Stagnar, formerly of Dartmouth College, has joined the staff of the University of Illinois as professor in labor and industrial relations.

Jack Stieber has resigned as instructor in economics at the University of Minnesota to be assistant director of research for the United Steel Workers' Union in Pittsburgh.

Robert M. Strahl, formerly of the University of Nebraska, is associate professor of marketing, College of Business Administration, University of Tennessee.

Theodore A. Sumberg has accepted an appointment as economist for the new fortnightly magazine, *The Reporter*.

Boris C. Swerling has been promoted to assistant professor of economics at Brown University.

A. G. Taylor, head of the department of political economy, has been elected Chancellor Distinguished Professor by the Board of Visitors of the College of William and Mary.

W. Bayard Taylor, of the University of Wisconsin, has joined the staff of Claremont Men's College as professor of business economics.

C. F. Joseph Tom was appointed instructor in economics at Beloit College in September, 1948.

E. T. Towne retired as dean of the School of Commerce, University of North Dakota, in September, 1948.

Joseph F. Trosper, formerly of Indiana University, is instructor in economics in the College of Business Administration, University of Tennessee.

Charles J. Walsh is serving as consulting economist to the Research Institute of America in addition to teaching in the Graduate School of Fordham University.

Ralph J. Watkins, of the School of Business, Columbia University, is serving as director of the Office of Plans and Programs, National Security Resources Board.

E. T. Weiler was appointed professor of economics at the University of Illinois in September, 1948.

Morris Weisz, formerly with the National Labor Relations Board, is temporarily special assistant to the Commissioner of Labor Statistics, Department of Labor.

Edmund Whittaker, formerly of Indiana University, has joined the faculty of Colorado Agricultural and Mechanical College.

Jack H. Wilcox, formerly of Missouri Valley College, is associate professor of finance, College of Business Administration, University of Tennessee.

Charles W. Williams has resigned as professor of economics at the University of Louisville, Kentucky, to become vice president of the Federal Reserve Bank of Richmond.

H. Lawrence Wilsey has been appointed assistant dean of the College of Commerce and Business Administration, University of Southern California.

Herman J. Wyngarden, professor of economics at Michigan State College, has been appointed dean of the college's School of Business and Public Service.

Theodore O. Yntema has resigned as research director of the Committee for Economic Development. He is now vice president of the Ford Motor Company for Finance.

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